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New ways in which the United Nations could address the crisis of multilateralism and trade and its development machinery, as well as what the contribution of UNCTAD would be

Note by the UNCTAD secretariat

Executive summary

Multilateralism and international trade are facing intensifying pressure, in particular with regard to their development impact. This is compounded by the rise of nationalist sentiment, the increased use of trade-restrictive policies, increasing difficulties in adopting hard rules in multilateral trade negotiations and a growing tendency to craft trade deals in bilateral, plurilateral and regional settings. The challenge for the international community is to ensure that the headwinds that multilateralism and international trade are currently facing do not hold back the contribution of international trade to the achievement of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals. The United Nations and UNCTAD, as the focal point in the United Nations for the integrated treatment of trade and development, have an important role to play in this regard.

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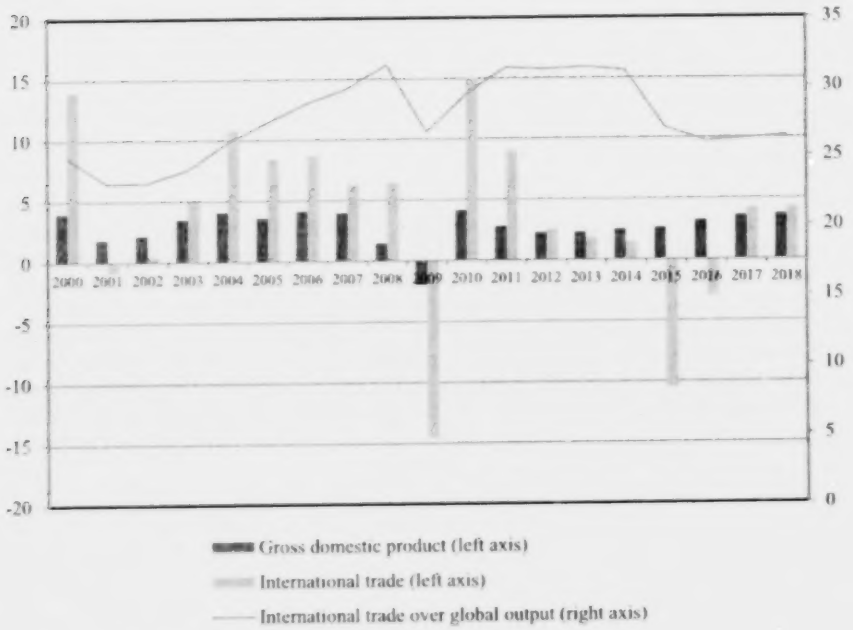
Introduction

1. Section 1 of this note discusses the crisis in multilateralism and international trade. Section 2 delineates approaches to maximizing the contribution of trade to inclusive and sustainable development. Section 3 discusses stronger UNCTAD intergovernmental consensus-building and soft-law approaches, to complement hard rule-making. The note concludes with several suggestions and questions for discussion with a view to revitalizing multilateral approaches to trade and sustainable development.

1. Trends in international trade and multilateral cooperation

2. International trade accounts for important shares of the outputs of national economies, yet its rise in importance has slowed. The most commonly used index of globalization trends, namely the ratio of the value of international trade over global output, stalled at about 30 per cent in 2011–2014, a level first reached in 2007, then fell by about 5 percentage points in 2015 and 2016 (figure 1).

Figure 1
Trends in international trade and global output
(Percentage)

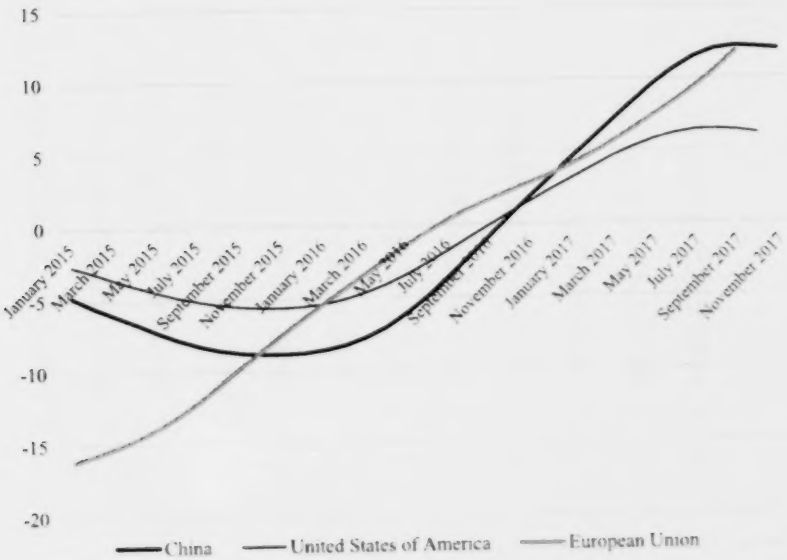


Source: UNCTAD calculations, based on UNCTADstat.

3. The most recent statistics and forecasts point to a positive trend in relation to both international trade and global output. Figure 2 shows trade trends for the three largest economies, namely China, the United States of America and the European Union, by illustrating the percentage change in the value of trade, measured as imports plus exports, compared with the same month in the previous year; displays the sharp declines in the value of trade in 2015 and early in 2016; and shows the recovery in all three economies since the fourth quarter of 2016. Overall, it is likely that in 2017 and 2018, trade will outpace output growth, albeit marginally. Global output growth is expected to be around

3.6 percentage points and trade growth, around 4 percentage points.[1] A recovery in trade growth is a positive factor for developing countries in particular, provided that it reflects growth in developing country exports.

Figure 2
Annual growth rate of trade in selected economies
(Percentage)

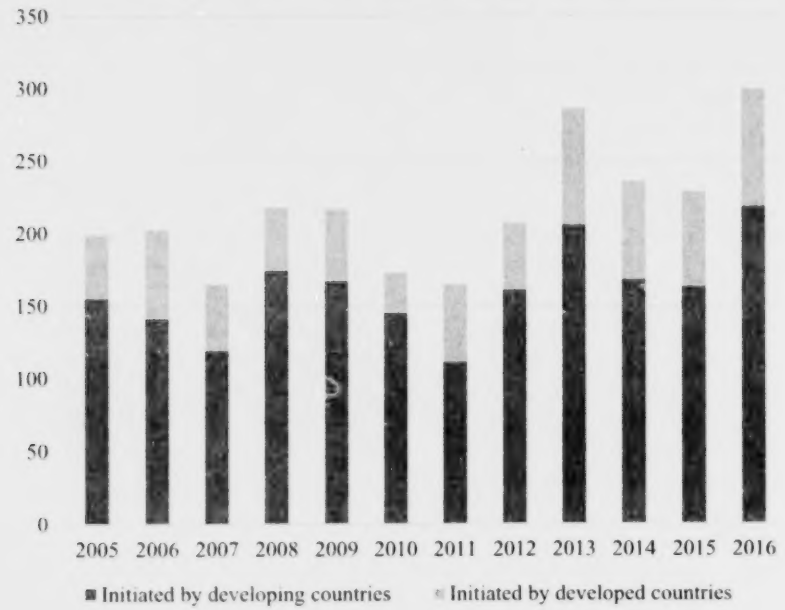


Source: UNCTAD calculations, based on Census Bureau of the United States, Eurostat and National Bureau of Statistics of China.

4. The recovery in trade remains fragile, as it is too early to gauge whether this positive trend will continue in the coming years. There is significant uncertainty and vulnerability affecting the global economy, and there are growing trade frictions between countries that may negatively affect international trade in the near future. Public support for globalization and for multilateral cooperation has waned. Concerns with regard to the benefits of globalization are also reflected in a surge in protectionist rhetoric. Debates on the persistence of trade imbalances and on the fairness of export promotion practices between the major economies are of concern. In addition, these developments have been accompanied by an increase in trade defence measures, such as anti-dumping and safeguard measures, and related investigations and disputes (figures 3 and 4). All of these developments have resulted in policymaking processes that are more cautious with regard to multilateral cooperation initiatives.

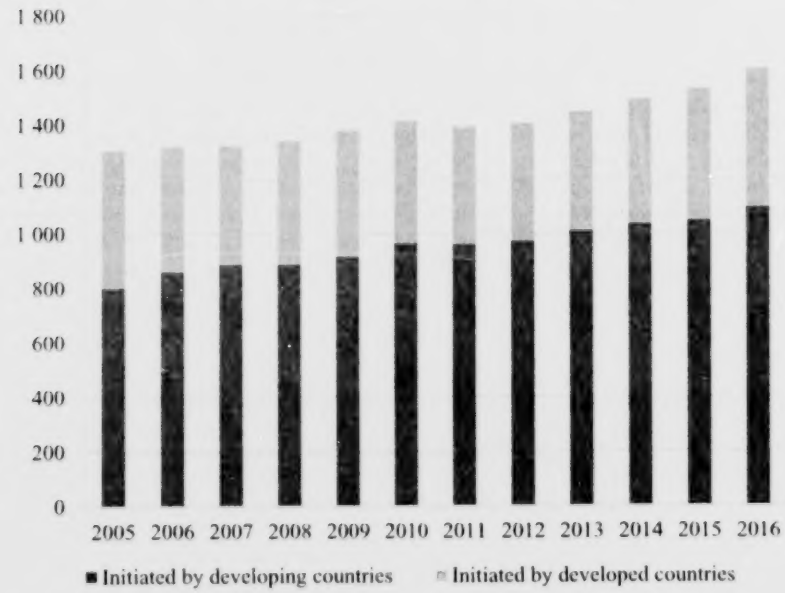
[1] International Monetary Fund. 2017. *World Economic Outlook October 2017: Seeking Sustainable Growth – Short-Term Recovery, Long-Term Challenges*. Washington, D.C.

Figure 3
Anti-dumping investigations, by number of investigations initiated



Source: UNCTAD, 2017, *Key Statistics and Trends in International Trade 2016: A Bad Year for World Trade?* United Nations publication, Geneva.

Figure 4
Trade defence measures, by number of cases with measures in effect



Source: UNCTAD, 2017.

5. Recently enacted protectionist measures risk provoking trade disputes, retaliations or trade wars. If many countries, in particular major trading economies, engage in trade-related disputes, such friction can impede the recovery of international trade and undermine multilateral cooperation.

6. The weakening globalization trend observed over the past decade has been accompanied by growing recognition that the economic gains and opportunities brought about by globalization have not been inclusive and have not always translated into sustainable economic, social and environmental well-being. Trade has contributed to lifting millions of people out of poverty, yet there remain a large number of people for whom the globalization process and trade openness has been harmful. In some countries, international trade and the rules governing such trade, developed through years of multilateral cooperation and administered through international arrangements, are increasingly perceived as detrimental to ordinary workers and as eliminating jobs, in particular in manufacturing sectors. Such concerns emphasize the issue of the equitable distribution of gains from trade and, in this regard, the need for policymaking at all levels that sufficiently protects the interests of the less privileged. In addition, rapid technological progress, such as the automation of production processes, has displaced some workers, yet has also created opportunities for new jobs based on technological advancements, and strategies to effectively harness technological change are therefore crucial.

7. Geopolitical challenges, technological innovations and socially or environmentally driven changes have created complex and urgent problems at both national and global levels. These challenges, and the need to address them collectively, added impetus to the adoption of the 2030 Agenda. However, despite the momentum launched by the adoption of the Sustainable Development Goals, there are mounting concerns over the ability, and practicability, of multilateralism to address global problems and promote sustainable development through a strengthened global partnership. Many Governments are finding it increasingly difficult to combine their domestic agendas with international commitments that often encompass and interact with sensitive policy areas of national competence.

8. The weakening globalization trend is also mirrored in the status of some multilateral cooperation processes, in particular the stalemate in multilateral trade rule-making under the World Trade Organization and in the appointment of members of its appellate body. The continued hiatus in reaching comprehensive results, including at recent ministerial conferences, illustrates the difficulties in advancing a multilateral agenda at this time. Some difficulties originate from a lack of consensus in negotiations on the multilateral policies and rules that would best support the development process in developing countries. Other difficulties originate from the emergence of new issues owing to the rapid changes that the global economy is experiencing, such as in electronic commerce (e-commerce) and investment and trade facilitation, which some countries wish to address.

9. The need for and scope of increased participation in international trade remains strong in many developing countries, in particular the least developed countries and small and vulnerable economies. It is therefore important to establish robust multilateral hard trade rules, to provide predictability, transparency and stability in market openings. However, efforts to improve multilateral hard trade rule-making continue to stall, yet the policymaking process has continued to progress at bilateral and regional levels. The number of preferential trade agreements, investment treaties and technical assistance programmes targeting behind-the-border and at-the-border policy reforms has continued to increase. There are two issues of concern to be considered in this regard. First, a more polarized international rule-making approach may not be in the interest of parties with more limited negotiating power and economic weight. Second, such polarization is likely to create a set of mutually inconsistent rules, which it may thereafter be difficult to establish at the multilateral level, as the rules may have been cemented by the interests of societal groups and economic lobbies.

10. There is therefore a high level of uncertainty as to how multilateral cooperation and the multilateral trading system will evolve in the coming years. For international cooperation to resume and to succeed, in particular with regard to the 2030 Agenda and the Sustainable Development Goals, Governments need to advance an economic agenda that is not only outward looking but also fair and equitable and that brings benefits to a much

larger share of constituents. In the absence of a coherent multilateral agenda that responds to the headwinds faced by globalization, the world may continue to drift toward nationalism and multipolarity.

II. Nurturing the contribution of trade to the achievement of the Sustainable Development Goals

11. Over the last decades, trade has contributed to promoting national economic growth and development and making available a wide range of goods and services to populations. Recognizing the contribution of trade, Goal 17 sets specific trade-related targets. Moreover, the fact that these targets are an integral part of achieving all of the Goals serves as a reminder that trade is not an end in itself. Trade and trade policy should serve as a catalyst for socioeconomic and environmentally sustainable development, advancing the 2030 Agenda commitment to build people-centred economies. Trade policy and rules should be development friendly, by being sensitive to and accompanied by complementary national and regional policies, to reduce poverty, create jobs and/or provide social safety nets for affected populations, as well as to promote sustainable development.

A. Trade as an engine of growth: Related targets under the Goals

12. The 2030 Agenda states that "international trade is an engine for inclusive economic growth and poverty reduction, and contributes to the promotion of sustainable development".[2] Targets related to trade include promoting a universal, rules-based, open, non-discriminatory and equitable multilateral trading system (target 17.10); significantly increasing the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020 (target 17.11); and realizing the timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries (target 17.12). Trade also generates important resources that can help finance the achievement of the Goals. The importance of development-friendly international trade as an engine of growth, in particular for developing countries, is therefore underlined.

13. With regard to the multilateral trading system, the Eleventh Ministerial Conference of the World Trade Organization, held in December 2017, ended without a formal outcome in the form of an overarching ministerial declaration. Instead, a set of ministerial decisions was adopted on a limited number of issues, notably fisheries subsidies (see box). Some members also agreed to initiate discussions on three new issues, namely e-commerce, investment facilitation and microenterprises and small and medium-sized enterprises.

World Trade Organization: Fisheries subsidies

Prior to the Eleventh Ministerial Conference, an agreement appeared promising on ending harmful fisheries subsidies, in line with target 14.6 on prohibiting or eliminating such subsidies by 2020, given the urgency to meet this target.

Instead, members agreed to "continue to engage constructively in the fisheries subsidies negotiations, with a view to adopting, by the Ministerial Conference in 2019, an agreement on comprehensive and effective disciplines that prohibit certain forms of fisheries subsidies that contribute to overcapacity and overfishing, and eliminate subsidies that contribute to [illegal, unreported and unregulated] fishing, recognizing that appropriate and effective special and differential treatment for developing country members and least developed country members should be an integral part of these negotiations". This decision sets a deadline for finding a solution to harmful economic incentives that contribute to the depletion of fish stocks and hinder the livelihood of coastal populations.

[2] A/RES/70/1.

The relationship between the Sustainable Development Goals and the Doha Round on fisheries subsidies highlights both the potential of and challenges in multilateral trade policy as an effective instrument to address pressing environmental issues under the Goals.

In support of these negotiations, at the fourteenth session of the United Nations Conference on Trade and Development in 2016, UNCTAD, jointly with the Food and Agriculture Organization of the United Nations and the United Nations Environment Programme, and with support from 91 States, adopted a joint statement on regulating fisheries subsidies, which seeks to promote consensus to achieve successful negotiations. UNCTAD continues to work with member States to find solutions to this issue of public goods.

Sources: World Trade Organization, 2017, Fisheries subsidies: Ministerial Decision of 13 December, document WT/MIN(17)/64; UNCTAD, 2016, Regulating fisheries subsidies, available at http://unctad.org/en/Pages/DITC/Trade-and-Environment/Regulating-Fisheries-Susidies.aspx (accessed 3 April 2017).

14. Improving market access at the border in developing countries (targets 17.11 and 17.12) and behind the border in the sectors of greatest importance for poor populations remains a challenging task. For example, agricultural markets in developed countries remain restrictive, both because of border protection through tariffs and domestic support through subsidies. Average agricultural tariffs have been above 6 per cent since 2005 and have not shown much reduction in the past several years. Such restrictions remain important,
yet non-tariff measures and private standards often represent an even higher barrier to exports. The number of non-tariff measures rose from over 1,500 in the mid-2000s to over 2,500 in 2015. Such measures tend to raise the unit values of traded products by 15–30 per cent in food and agricultural sectors and by 5–20 per cent in manufacturing sectors.[3]

15. Non-tariff measures and private standards often represent an important hurdle for market access, yet they are also supportive in the achievement of sustainable development. Many non-tariff measures arise from domestic legislation designed to protect the health and safety of the population or the environment and private standards are used to meet increasing consumer demands for environmental and social sustainability. Significantly, although it serves similar objectives, domestic legislation generally differs between countries, resulting in unnecessary obstacles to trade. The coordination and/or harmonization of such policies, for instance through the adoption of international standards and increased regulatory convergence, may be helpful in this regard. Ways forward on this matter could build on the coordination by UNCTAD of work on non-tariff measures among several United Nations and international and regional organizations, as well as on its comprehensive database on non-tariff measures. They could also build on the partnership of UNCTAD with several United Nations agencies aimed at addressing market access and development issues arising from private standards, namely the United Nations Forum on Sustainability Standards
(see https://unfss.org/).

16. Fast, reliable and transparent trade procedures are important for developing countries to be able to reach markets abroad and to participate in global value chains. In addition, implementing trade facilitation reforms entails direct benefits for national development related to populations and institutions, through associated investments in capacity-building and public-sector reforms. Specific measures that involve transparency, capacity-building and institutional modernization have a direct bearing on the achievement of several of the Sustainable Development Goals. The implementation of trade facilitation

[3] UNCTAD, 2013, *Non-Tariff Measures to Trade: Economic and Policy Issues for Developing Countries*, United Nations publication, New York and Geneva.

is also closely correlated with development indicators. Put differently, the likelihood that a developing country will implement trade facilitation reforms depends not only on its willingness to increase the volume of its foreign trade, but above all on national capacity to implement such reforms.

17. Many measures in the Agreement on Trade Facilitation of the World Trade Organization, which entered into force in 2017, have a direct link to the Goals. For example, article 1 covers the publication and availability of information on import, export and transit procedures; a country that complies with article 1 may therefore be closer to achieving target 16.10, which, inter alia, aims to ensure public access to information. By making trade easier and less opaque, many trade facilitation measures directly encourage informal businesses to declare transactions and participate in formal foreign trade, thereby supporting the achievement of target 8.3 on the formalization and growth of microenterprises and small and medium-sized enterprises.

18. As developing countries face increasingly greater challenges in accessing large and complex markets, development assistance and global partnerships for development are more important than ever. Improving development assistance, such as by increasing resources through aid for trade, providing trade-related information and increasing investment, is necessary to improve developing country access to markets.

B. Policy areas in which to enhance the contribution of trade to the 2030 Agenda

19. At the macroeconomic level, international trade, that is, exports of goods and services, accounts for more than half of the gross domestic product of many low-income countries. Moreover, under certain conditions, international trade provides support for a large number of jobs in many developing countries (Goal 8), thereby contributing to the achievement of other Goals with regard to access to food, health care, education, energy and water and sanitation. Beyond income generation, trade also influences the achievement of most of the Goals through other channels, both directly and indirectly. Countries need to ensure that the aggregate gains from trade are maximized, shared fairly and equitably, in particular among the most vulnerable groups, and that those who are affected by trade-related disruptions and adjustments are quickly brought back to productive employment. Trade policies alone are not enough to achieve this and complementary policies such as fiscal and financial policies, as well as policies related to investment, industry, education, skills and innovation and competition and consumer protection, along with quality infrastructure and trade facilitation measures in favour of microenterprises and small and medium-sized enterprises, are essential for inclusive development. Some of these interrelated policy dimensions are detailed in the following sections.

1. Enabling people to benefit from trade opportunities

20. Providing jobs and incomes to vulnerable populations, including the poor, women and youth, is an overarching theme of the Goals. Trade and trade policies may be used to address related concerns, such as decreasing the lack of gender-related equality. For example,

pro-poor trade policies can increase the relative income of poor households by altering the availability, accessibility, affordability and quality of essential goods, for example lowering tariffs on mosquito nets in countries where malaria is prevalent, to help reduce child mortality.[4] Greater attention may be placed on minimizing and averting the negative employment outcomes of integration into the international economy.

[4] A Nicita, M Olarreaga and G Porto, 2014, Pro-poor trade policy in sub-Saharan Africa, *Journal of International Economics*, 92(2):252–265; UNCTAD, 2016, *Trading into Sustainable Development Trade, Market Access and the Sustainable Development Goals*, United Nations publication, New York and Geneva.

21. The contribution of trade and trade policies to enhancing equality should not be taken for granted, as they can also exacerbate inequalities. Analytical work by UNCTAD on the impact of trade liberalization on gender equality shows that trade liberalization has mixed impacts on women workers.[5] Women may obtain stable wage employment, yet they may receive low salaries and have limited opportunities for skills development. To avoid trade policy changes that reinforce existing inequalities, Governments need to design pro-poor and gender-sensitive trade policies.

22. An important way forward may be for countries to elaborate Goals-oriented trade policy frameworks best suited to their development circumstances. It would be relevant for developing countries to reformulate and implement integrated Goals-oriented national trade policies through multi-stakeholder dialogues.[6] Such efforts may be accompanied by national trade policy reform efforts associated with processes of accession to the World Trade Organization.[7]

23. As trade increasingly takes place online, achieving target 17.11 increasingly requires enterprises in developing countries to be visible online and engage in e-commerce. New digital solutions can help overcome challenges to exporting, such as those related to small domestic markets and remoteness from global markets and other geographical disadvantages. Traditionally, only large and productive firms were able to bear the costs associated with export entry, such as identifying and marketing to distant customers. Such costs can be significant with each successive export market entry. By reducing information asymmetries and costs related to communications and information, transactions, searches and matching, new solutions can help lower overall trade costs.[8]

24. Digital technologies also create opportunities for new types of trade in digitally traded products, services and tasks, as well as for increased traditional trade using e-commerce and online platforms to match buyers and sellers. Such platforms can help enhance the visibility of products. However, although digitalization can help make trade more inclusive, gains are not automatic. Companies still need to ensure that their goods and services meet the quality standards and prices expected by potential clients. Challenges include ensuring that entrepreneurs have the required capabilities to engage in e-commerce, as well as cross-border trade, such as capabilities in digital marketing and the ability to comply with various trade rules.

2. The role of services exports in achieving the Goals

25. The services sector plays an increasingly important role in the world economy in creating employment, building linkages, coordinating production processes and facilitating international trade. In 2016, it accounted for about 67 per cent of output and 49 per cent of employment in the world economy.[9] As the contribution of services activities as intermediate inputs in production in all economic sectors, including agriculture and industry, has increased, the servicification of international trade has deepened in both developed and developing countries. Developing the services sector is therefore important in enhancing trade and development.[10]

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[5] UNCTAD, 2014, *Looking at Trade Policy Through a Gender Lens: Summary of Seven Country Case Studies Conducted by UNCTAD*, United Nations publication, New York and Geneva.

[6] UNCTAD has assisted several countries upon request in this regard, including Algeria, Botswana, the Dominican Republic, Jamaica, Namibia, Panama, Tunisia and Zambia. See, for example, UNCTAD, 2017, *Trade Policy Framework: Panama*, United Nations publication, New York and Geneva.

[7] UNCTAD has assisted over 20 acceding countries in this regard, including those with post-conflict and fragile economies.

[8] UNCTAD, 2017, *Information Economy Report 2017: Digitalization, Trade and Development*, United Nations publication, Sales No. E.17.II.D.8, New York and Geneva.

[9] UNCTADstat and World Bank World Development Indicators database.

[10] For example, in Malawi, Uganda and Zambia, financial credit access, transport, marketing and information services have determined to a large extent the gains of farmers producing crops destined for export to international markets. See UNCTAD, 2014, *Services: New Frontier for Sustainable Development – UNCTAD Findings on Services, Development and Trade*, United Nations publication,

26. Developing countries with weak domestic productive capacities in manufacturing sectors, in particular commodity-dependent and small economies, may diversify their export baskets into services products such as tourism. Given the high transportation costs of merchandise goods due to weak connectivity and long distances to major markets, as well as advances in information and communications technology and e-commerce technology, services trade can be a good alternative approach to promoting trade and domestic employment.[11]

3. Trade and environmental stability

27. Trade can contribute to protecting the Earth, for example by making clean technologies available worldwide. The production and transport of goods leaves an ecological footprint that needs to be minimized through the fostering of sustainable production and transport technologies, to achieve sustainable development under Goals 11–15. At times, environmentally sustainable trade may act as a catalyst for social and economic development. For example, green exports can provide avenues for developing country producers to protect the environment while achieving higher market prices for exports.[12]

28. The potentially adverse impacts of international freight transport activity on human health, the environment and the climate are a cause for concern, as are the potential impacts of climate change on seaports and other coastal transport infrastructure. If left unchecked, unsustainable freight transport patterns are likely to undermine the effective achievement of the Goals and the Paris Agreement under the United Nations Framework Convention on Climate Change. It is important to assist the effective integration of developing countries into global and/or regional trading networks and transport systems and their participation in relevant value chains through, among others, efficient, reliable, cost-effective, well-connected, socially inclusive, environmentally sustainable and climate-resilient freight transport systems. Over 80 per cent of world merchandise trade by volume and over 70 per cent by value is carried by sea,[13] and sustainable and climate-resilient maritime transport can be a sustainable development catalyst.

4. Reducing adjustment costs and protecting those that may be left behind

29. Trade liberalization and reforms can bring frictions and adjustment costs in the short term. For example, trade reforms can strongly affect the structure of employment, creating employment in some sectors while disrupting employment in other sectors. This can result in temporary unemployment as workers change jobs or industries. Accordingly, countries should put accompanying measures in place to ease the transition for workers and firms, for example by providing additional training for displaced workers to qualify for work in booming sectors, such that they can once more benefit from trade at a later stage. Adequate social policies are also required to protect those negatively affected by trade-

New York and Geneva.

[11] In this regard, UNCTAD assists countries and regions in assessing their services policies, with a view to building productive capacities in services and developing supportive and adequate regulatory and institutional frameworks that can promote services that support the achievement of the Sustainable Development Goals. Countries and regions assisted to date include Bangladesh, Nepal, Paraguay, Uganda and the Economic Community of West African States. See, for example, UNCTAD, 2016, *Services Policy Review: Bangladesh*, United Nations publication, New York and Geneva.

[12] In this regard, UNCTAD has assisted several countries upon request in developing green export reviews to identify potential sectors for production and trade, including Ecuador, Lebanon, Madagascar, Oman, the Republic of Moldova, Senegal and Vanuatu. In addition, the UNCTAD BioTrade initiative has supported sustainable production and trade in biodiversity-based products for many years, mainly by the rural poor that live in proximity to the resources from which they derive these products. See, for example, UNCTAD, 2016, *National Green Export Review of Vanuatu: Copra-Coconut, Cocoa-Chocolate and Sandalwood*, United Nations publication, New York and Geneva.

[13] UNCTAD, 2017, *Review of Maritime Transport 2017*, United Nations publication, Sales No. E.17.II.D.10, New York and Geneva.

related disruptions who cannot change sectors, an effect more likely to occur among elderly populations.

30. In general, adjustment costs need to be taken into greater consideration in policymaking processes. The implementation of trade reforms may at times be designed to minimize such costs, for example as intended in the agreement on the Continental Free Trade Area in Africa.[14]

5. Reducing anti-competitive practices

31. Trade and investment reforms and liberalization in support of economic growth and development can be circumvented by the national and/or cross-border anti-competitive behaviour of enterprises. To counter and halt such behaviour, comprehensive competition provisions are necessary at all levels. Strengthened competition laws and policies may facilitate the national and international competitiveness of key sectors and the growth of the private sector in countries and regional groupings.

32. In addition, robust cross-border cooperation by competition authorities can address the harmful effects of international cartels that restrain access by small and medium-sized enterprises to regional and global value chains. Such efforts are in line with the United Nations Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices. Roughly two decades previously, only a few developing countries had competition law regimes in place; currently there are almost 140 jurisdictions that have enacted competition laws, along with several regional-level competition laws and policies, such as in the following: Andean Community; Caribbean Community; Common Market for Eastern and Southern Africa; Eurasian Economic Community; Southern Common Market; and West African Economic and Monetary Union.

6. Developing productive capacities

33. Participation in global trade can enable countries to strengthen productive capacities and allow them to be competitive in increasingly sophisticated international markets. The development of productive capacities requires boosting investment, enhancing firm capabilities and fostering technological progress and innovation. Trade policies should therefore be accompanied by complementary policies, such as in investment, industry, education, skills and innovation, which are essential for the successful development of supply capacities for trade. Such policies may be framed by an industrial policy for building industrial productive capacities. Building firm capabilities is also relevant in this regard and requires learning, skills development and enterprise development.

34. Building productive capacities requires investment, both public and private. Given the financing gap of $2.5 trillion annually in developing countries, the achievement of the Sustainable Development Goals will not be possible without private investment, including foreign direct investment.[15] However, harnessing foreign direct investment for development poses significant challenges to policymakers, in particular given the highly fragmented system of international investment relations. National efforts are required to develop productive capacities, yet the international community also has a vital role, in particular in the areas of technical assistance, technology transfer and access to finance for investment. Public sources of finance, including foreign aid, may be mobilized, for example to help finance infrastructure-related investments for trade. Public finance also helps developing countries integrate into global value chains, which can promote development through mechanisms such as technology transfer, skills and knowledge development and learning by doing.

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[14] In this regard, UNCTAD research on the impact of the different tariff reduction modalities proposed for the Continental Free Trade Area highlights the need for adjustment measures to address concerns over possible losses in tariff revenues and welfare through longer implementation periods in some countries, in particular the least developed countries (UNCTAD, 2018, African Continental Free Trade Area: Challenges and opportunities of tariff reductions, Research Paper No. 15).

[15] UNCTAD, 2014, *World Investment Report 2014: Investing in the [Sustainable Development Goals] – An Action Plan*, United Nations publication, Sales No. E.14.II.D.1, New York and Geneva.

III. Stronger UNCTAD intergovernmental consensus-building and soft-law approaches, to complement hard rule-making

35. The crisis in multilateralism and trade-related hard rule-making brings to the fore the need for more specific assessments of the governance of trade for sustainable development. This crisis does not justify a rejection of the hard rule-making process, as this provides stability, predictability and transparency in the rights and obligations undertaken under the international trading system. At the same time, the rules-based multilateral trading system can potentially reduce the policy options of States in achieving the Goals, which underlines the importance of ensuring a robust development dimension. Elaborating trade frameworks that foster inclusive and sustainable development may therefore be better undertaken by way of developing best practices and soft laws, such as voluntary codes of conduct and guidelines. Such a process would enable countries to safeguard policy space while building up a non-binding system of commitments and best practices that could eventually be taken over by relevant multilateral institutions when countries wish to move from soft to hard rule-making and governance.

36. The current proliferation of plurilateral and issue-based negotiations has made forging trade alliances and reaching multilateral consensus increasingly complex. Countries may often be reluctant to give up policy space when exploring commitments multilaterally. Against this background, UNCTAD offers United Nations Member States informal and formal space for open and creative dialogues to explore policy issues and interests and, ultimately, reach consensus without immediately requiring hard commitments. In contrast to the legally binding nature of commitments under the World Trade Organization and their enforcement through the Dispute Settlement Body, the consensus-building role of UNCTAD in multilateral trade and development policymaking stimulates exchanges and the sharing of best practices and experiences, with a view to making trade work for development.

UNCTAD can thereby prepare the ground and support member States in openly and holistically discussing collective actions to problems inherent in multiparty and multi-issue trade negotiations.

37. The consensus-building role of UNCTAD may be useful in the near future as members of the World Trade Organization begin to explore the role and contribution of new issues discussed at the Eleventh Ministerial Conference, namely e-commerce, investment facilitation and microenterprises and small and medium-sized enterprises. There is an opportunity for member States to reach consensus on these emerging issues in a non-binding setting. This would follow the example demonstrated in other areas that have previously been a focus of non-binding consensus-building and soft-law approaches at UNCTAD, such as the Generalized System of Preferences, the United Nations Guidelines for Consumer Protection and the United Nations Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices.

38. UNCTAD leadership in data collection and in the research and analysis of developing country trade and development issues contributes to incubating knowledge that underpins intergovernmental consensus-building and soft-law approaches. For example, UNCTAD research and analysis discusses important new trends and challenges, such as the impact of robots on industrialization and inclusive development, which could have useful applications in international consensus-building on frontier issues, such as how developing countries can respond to and benefit from technological change.[16] Such analyses also detail the opportunities for development provided by globalization and trade, and the complementary policies that need to be in place to foster inclusive growth and poverty reduction. In addition, UNCTAD provides data and analyses for monitoring, in the wider United Nations system, the implementation of the outcomes of important trade and development-related intergovernmental and multi-stakeholder processes, including, among

[16] UNCTAD, 2017, *Trade and Development Report 2017: Beyond Austerity – Towards a Global New Deal*, United Nations publication, Sales No. E.17.II.D.5, New York and Geneva.

others, the follow-up process of the Third International Conference on Financing for Development. UNCTAD also provides statistical and analytical inputs to the monitoring of a number of the global indicators for the Sustainable Development Goals for which UNCTAD is the custodian. A stronger focus on the intergovernmental consensus-building and soft-law approaches of UNCTAD could help to strengthen the substantive content and effectiveness of contributions to such global processes.

39. UNCTAD technical assistance can also provide fruitful field-level experiences on which intergovernmental consensus-building and soft-law approaches can draw for evidence of how policies may be put into practice. As the United Nations focal point for the integrated treatment of trade and development and interrelated issues, UNCTAD engages in extensive inter-agency collaboration in providing technical assistance on trade and development-related matters. Field-level inter-agency mechanisms, such as the United Nations Inter-Agency Cluster on Trade and Productive Capacity coordinated by UNCTAD, offer a promising avenue by which to filter upwards experiences from trade and development-related operations at national and regional levels, in order to strengthen the non-binding consensus-building and soft-law approaches of UNCTAD.

IV. Policy recommendations

40. The following policy recommendations are proposed:

(a) In the current interconnected, liberalized and fast-changing environment, for trade not to be lost as an enabler of inclusive development, the international community needs to urgently work together, in all available forums, to uphold multilateralism as the cornerstone of the Global Partnership for Sustainable Development (Goal 17).

(b) The multilateral approach should remain at the core of the global partnership, to achieve sustainable development through trade.

(c) The framework for a development-friendly international trading system may be based on both hard law and soft law, with the latter taking greater prominence when the former presents difficulties with regard to policy space and options.

(d) UNCTAD, as the focal point in the United Nations for the integrated treatment of trade and development and interrelated issues in the areas of finance, technology, investment and sustainable development, has an important contribution to make in strengthening multilateralism in trade and development relations to advance the Sustainable Development Goals.

41. The Trade and Development Board may wish to consider the following questions:

(a) Amid the current retreat from multilateralism and the crisis in rule-making in the multilateral trading system, what actions should the international community take to strengthen a revival in international trade and revitalize the multilateral trading system? How should the international community ensure that multilateralism brings about transformative impacts under the Sustainable Development Goals and enables trade to bring shared prosperity?

(b) The symptoms of discontent with multilateralism and trade should not be left unaddressed, yet what should policymakers do to enable international trade to deliver on the Sustainable Development Goals? Can trade policy be, at the same time, poverty sensitive, gender sensitive, labour sensitive, environmentally sensitive and climate friendly?

(c) Given that crises can trigger change, what does the future portend for the United Nations and its development machinery in enhancing the contribution of trade to sustainable development? What should be the contribution of UNCTAD?

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Industrial policies and productive capacity policies for a digital economy

Note by the UNCTAD secretariat

Executive summary

Digitalization is introducing profound changes in the organization of the global economy, redefining value chains and blurring the boundaries between the production of goods and services. Digitalization can facilitate implementation of the 2030 Agenda for Sustainable Development, but only if proactive policies are adopted to build productive capacities that are relevant to the new digital economy. This includes mobilizing resources to close infrastructure gaps, building the digital skills and competences of firms and persons, enhancing innovation policies and utilizing demand-side industrial policies. The treatment of data, the basic productive input of the digital economy, poses policy and regulatory challenges with international dimensions that could be considered in the context of the consensus-building pillar of UNCTAD.

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I. Introduction

1. The world economy is undergoing the first stages of a digital revolution. Digitalization is expected to affect production, employment and trade patterns, and will require adapting existing policy frameworks in various areas, with the attendant implications for implementation of the 2030 Agenda for Sustainable Development. Digitalization is of direct relevance to several of the Sustainable Development Goals: Goal 5, on gender equality, Goal 8 on decent work and economic growth, Goal 9 on industry, innovation and infrastructure and Goal 17 on partnerships to achieve the Goals. Digitalization could also affect most of the other goals more indirectly, particularly Goal 1 on poverty, Goal 10 on inequality and Goal 12 on responsible consumption and production.

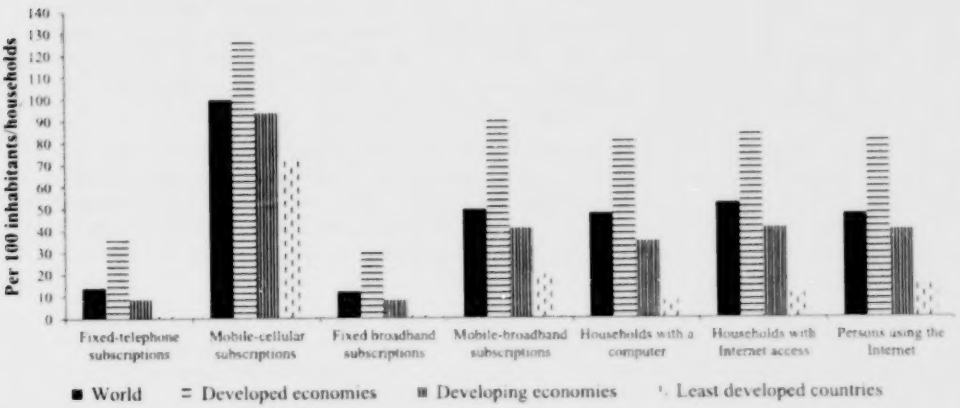
II. An evolving digital economy among significant digital divides

2. Key technologies underpinning the evolving digital economy include advanced robotics, artificial intelligence, the Internet of things, cloud computing, big data analytics and three-dimensional printing. While development of reliable indicators for the digital economy remains a work in progress, existing measures indicate that the digital economy is expanding in several dimensions. Global production of information and communications technology (ICT) goods and services now amounts to an estimated 6.5 per cent of global output, and some 100 million people are employed in the ICT services sector alone. Exports of ICT services grew by 40 per cent between 2010 and 2015. Worldwide electronic commerce (e-commerce) sales in 2015 reached $25.3 trillion, 90 per cent of which were in the form of business-to-business e-commerce and 10 per cent, in the form of business-to-consumer sales. UNCTAD estimates that cross-border business-to-consumer e-commerce was worth about $189 billion in 2015, which corresponds to 7 per cent of total business-to-consumer
e-commerce. Sales of robots are at the highest level ever; worldwide shipments of three-dimensional printers more than doubled in 2016, to over 450,000 devices, and are expected to reach 6.7 million devices in 2020. By 2019, the volume of global Internet traffic is expected to increase 66 times from what it was in 2005.[1]

3. The pace of integration into the digital economy varies considerably, however, both across and between countries (see figure). Although the number of Internet users grew by 60 per cent between 2010 and 2015, more than half of the world's population remains offline. Broadband connectivity in developing countries, when available, tends to be relatively slow and expensive. The 16 per cent of the world's adult population that use the Internet to pay bills or purchase items live mostly in developed countries; online activity in the least developed countries remains marginal. Small firms generally use the Internet for online sales much less than large firms do. Moreover, only 4 per cent of all three-dimensional printers are used in Africa and Latin America, and the use of robots is also very limited in most developing countries, except for some countries in Asia.

[1] See also UNCTAD, 2017, *Information Economy Report 2017: Digitalization, Trade and Development* (United Nations publication, Sales No. E.17.II.D.8, New York and Geneva).

Digital divides: Information and communications technology penetration, by level of development, 2016



Source: International Telecommunication Union (2016). *Measuring the Information Society Report 2016*. Geneva.

III. Opportunities and challenges from the digital economy

4. Although the speed of digital transformations differs, these transformations present both opportunities and risks for countries at all levels of development. ICTs, e-commerce and other digital applications help smaller businesses and entrepreneurs in developing countries to connect with global markets more easily. They can also promote the empowerment of women as entrepreneurs and traders. Furthermore, mobile and digital solutions are facilitating financial inclusion. Small firms in developing countries with sufficient connectivity may also be able to access various cloud services and obtain crowd financing through online platforms.

5. Digital technologies have a bearing on the prospects of firms from developing countries, including microenterprises and small and medium-sized enterprises, for participating in global trade. They allow firms to cut costs, streamline supply chains and more easily market products and services worldwide. Increased trade at reduced costs can have positive spillover effects on the economy as a whole, for example through enhanced competition, productivity and innovation, as well as improved access to talent and skills. Nevertheless, to derive such benefits from digitalization, firms will need to overcome various barriers. Many small firms in developing countries remain limited in terms of their digital involvement in relevant value chains, reflecting inadequate connectivity, limited awareness of the benefits of digitalization, skills gaps and other barriers. Digitalization could facilitate the integration of smaller firms into value chains to the extent that digital systems increase the modularity of value chains. Smaller firms could also benefit from participating in global platforms if they were to succeed in customizing their products to serve well-defined niche markets.

6. Positive impact, however, depends on the readiness of economies to take advantage of digitalization and on policies that address the serious development challenges associated with digitalization. Many developing countries, especially the least developed countries, are inadequately prepared to capture the many opportunities arising from digitalization. Moreover, digitalization may cause increased polarization and widening of income inequalities, as productivity gains may accrue mainly to a few, already relatively wealthy and skilled individuals. Winner-takes-all dynamics are typical in platform-based economies, where network effects benefit first movers and standard setters. Indeed, the world's top four companies by market capitalization are all closely linked to the digital economy: Apple, Alphabet (Google), Microsoft and Amazon. There are also concerns over how the flow of data, a key resource in the digital economy, can be harnessed for development while addressing concerns related to privacy and security.

IV. Adapting to new skills needs

7. Digitalization has caused concerns that trade and technology are replacing routine, codifiable tasks, thereby harming employment and income opportunities for lower-skilled workers. Although the trade-offs between jobs, on the one hand, and economy-wide productivity and growth, on the other, remain hotly debated, forecasts of robot-based job displacement in developing countries appear to be exaggerated.[2]

8. Digitalization is expected to lead to new types of jobs and employment, change the nature and conditions of work, alter skills requirements and affect the functioning of labour markets, as well as the international division of labour. As countries and locations benefit from improved access to similar digital infrastructure, harnessing these resources for development is crucial for implementation of the 2030 Agenda for Sustainable Development.

9. Given the relative newness and evolving nature of digitalization, its overall effects remain uncertain. Yet, any of its effects will be context specific, differing greatly among countries and sectors. While this raises a range of policy issues, it becomes increasingly important for countries to ensure an adequate supply of skilled workers with the strong cognitive, adaptive and creative skills necessary for "working with the machines".

10. At its most basic level, the need for digital skills concerns familiarity with the operation of digital devices and software (Internet browsers, spreadsheets, text processing) and how to obtain reliable information online to accomplish everyday business processes. Higher levels of digital skills will be increasingly necessary in many non-ICT occupations. These include proficiency in programming languages, data analysis and processing and modelling skills. For ICT occupations, digitalization will imply the need to understand basic algorithms and to use online resources to create new functions or develop more suitable applications when needed. Training in statistics, programming languages and big data analytics become important. At a higher level, skills to adapt technology and eventually to innovate includes sophisticated programming skills and knowledge of complex algorithms, such as machine learning. Skills in industrial robotics, automation and the Internet of things will become essential for the development of the manufacturing sector.

11. The differential impact of digitalization for the employment of men and women remains unclear. However, there is growing evidence that women-led businesses have become an important source of job creation and economic growth, hence contributing to the achievement of inclusive development. In this context, improving the access of women to training in digital skills and related entrepreneurial skills becomes a key factor in promoting inclusiveness in the digital economy.

V. Building productive capacity for maximizing development gains from the digital economy

12. Proactive policies to build the necessary capacities are critical for realization of the full potential of the digital economy. Building these capacities may be particularly challenging in vulnerable countries, such as the least developed countries, small island developing States and landlocked developing countries, that already face significant digital divides. Developing productive capacities requires promoting investment, building capabilities and fostering innovations. Governments can help by improving infrastructure, creating an enabling environment for investment, providing support to private initiatives and striving for coherence and participation.

[2] See also UNCTAD, 2017, Industrial robots and inclusive growth, Policy Brief No. 60, November.

13. The policy challenge of developing productive capacity for the digital economy varies in terms of countries' readiness to engage in and benefit from the digital economy, with the least developed countries generally being the least prepared. The challenge is also multifaceted. There is a wide spectrum of policy areas that need to be addressed holistically, such as ICT infrastructure, education and skills development, the labour market, intellectual property rights, competition, science, technology and innovation and fiscal issues, as well as trade and industrial policies. Policy coherence and a whole-of-government approach that ensures cross-sectoral collaboration within Governments, and effective coordination with other stakeholders, is essential.

14. Policy measures are needed, both at the national and international levels, to address the problem of ICT connectivity. Measures to enhance connectivity include mobilization of resources for upgrading of ICT infrastructure as well as efforts to ensure that policy frameworks and regulations secure an open, transparent and fair telecommunications market to attract additional investment. Measures to make broadband use more affordable include infrastructure sharing, effective spectrum management and avoidance of high taxes and import duties on telecommunications/ICT equipment and services. Internet connectivity is also dependent on the availability of a reliable electricity supply.

15. In response to the digital skills challenge noted above, countries will need to adjust their education and training systems. This will require changes to the education and training systems, as well as individual attitudes, and it may involve crafting appropriate curricula today for skills and jobs that will be required in the future. Furthermore, education policies also need to consider the continuous training of teachers. Digital skills need to be incorporated at all levels in the education system, as part of vocational training and of lifelong updating and upscaling of skills for the workforce. Encouraging the participation of girls in the study and professions of science, technology, engineering and mathematics in both developed and developing countries can help to build intermediate- and advanced-level digital skills.

16. Irrespective of their situation today, all countries should start preparing for future transformations. Attention should be given to the social and political dimension of the digital economy. Proactive redistribution policies can help mitigate the risk of increased polarization and income inequality. Social protection systems that support workers when they are between jobs or not working regularly are currently available only to about one quarter of the world's population.

17. To prevent the evolving digital economy from leading to widening digital divides and greater income inequalities, and to ensure that more people and enterprises in developing countries have the capacity to participate effectively in it, the international community will need to expand its support on a massive scale. The current level of support is unsatisfactory. Indeed, the share of ICT in total aid for trade declined from 3 per cent in 2002–2005 to only 1.2 per cent in 2015. Proactive efforts are therefore warranted. One way to capitalize on existing knowledge and maximize synergies with partners is to tap into the UNCTAD eTrade for all initiative. UNCTAD has also launched an innovative project to help the least developed countries assess their readiness to engage in and benefit from e-commerce and other activities in the digital economy. This will also help them identify areas in which targeted support is needed the most.[3]

[3] Finalization of the UNCTAD eTrade readiness assessments of Bhutan, Cambodia, Liberia, the Lao People's Democratic Republic, Myanmar, Nepal and Samoa is expected by the time of the sixty-fifth session of the Trade and Development Board.

VI. Ensuring equitable sharing of the benefits of moving towards a digital economy

18. Moving towards a digital economy poses serious challenges that require ambitious policies to ensure that developing countries can in fact experience the potential development benefits of these technologies. Such policy challenges go beyond skills development and bridging the digital gap, which, nonetheless, represent fundamental conditions for integration into the digital economy.

19. The new digital technologies are often considered a game changer with regard to how production is undertaken and organized in value chains. This is because they give intangibles (i.e. research and development, design, blueprints, software, market research and branding, databases etc.) a more prominent role in income generation. Activities related to intangibles may be considered services. This means that, in a digital world, services increasingly permeate the goods sector and that the traditional boundaries between goods and services in the production process are increasingly becoming blurred. By the same token, the various segments of a production process are becoming more closely interwoven, and pressure to geographically co-locate the design, production and distribution segments of the production process may increase.

20. The critical question is which part of the production process digitalization will make the move to be close to the other parts. Robot-based automation may lead to reshoring of production activities to developed countries. However, the limited systematic evidence that is available in this area suggests there is little reshoring from developing to developed countries.[4] By contrast, policies designed to increase the use of computer-aided design and three-dimensional printing devices in developing countries, combined with leveraging information on domestic market dynamics through ITCs associated with the Internet of things (including cloud computing and big data analysis), may allow moving design activities towards developing country firms to produce goods and services whose functionalities and features are customized for their clients. The ability to flexibly respond to domestic customers may become particularly important for developing countries whose export opportunities have been severely dented by the declining dynamism of world trade, but whose domestic or regional markets are relatively large.

21. To harness the development benefits that these impacts of digitalization on the production process may provide, developing countries may need to rebalance their traditional innovation and industrial policies oriented to the supply side, shifting towards greater attention to demand considerations. For innovation policies, this might imply complementing the traditional focus on building capabilities that support and accelerate the diffusion and adoption of imported technology, as well as the technology's adaptation to local circumstances, towards greater emphasis on generating newly designed goods and services with entirely new functionalities and features that are customized for local consumers. These more proactive approaches emphasize the importance of interaction between all actors who contribute to innovation.

22. The effectiveness of such inclusive innovation approaches could be reinforced through more industrial policies oriented to the demand side. These would see Governments acting: as direct customers of domestically designed and produced innovative goods and services, such as through public procurement; as providers of links between customers, designers and producers, such as through awareness campaigns and labelling; and as active promoters of private demand of innovations generated by domestic firms, such as through fiscal incentives. Combining such proactive and more demand-side-oriented innovation and industrial policies could make significant contributions to attaining the goals of the 2030 Agenda for Sustainable Development.

[4] See UNCTAD, 2017, *Trade and Development Report 2017: Beyond Austerity – Towards a Global New Deal* (United Nations publication. Sales No. E.17.II.D.5. New York and Geneva).

23. The digital economy relies on the generation, storage, processing and transfer of data, both within and across national boundaries. Access to data and data analysis are becoming strategically important to enhance the competitiveness of companies across sectors. Policymakers need to address data-related regulatory issues, balancing the need for companies to collect and analyse data for innovation and efficiency gains, on the one hand, and concerns about security, privacy and movement and ownership of data, on the other. Moreover, potential network effects from first-mover advantages in data ownership and associated potential anti-competitive practices should be addressed at the national level through appropriate fiscal, competition and antitrust policies. At the international level, the current system for data protection is fragmented, with varying global, regional and national regulatory approaches. In addition, many developing countries still lack legislation in this area altogether. This risks leading to the entry of developing countries into a digital world with standards largely set by more advanced countries and firms that act globally.

24. There remains a wide variation of views on these issues. Some hold that adopting negotiated rules at this stage may prevent regulations from arising through practices and patterns of behaviour that may be unduly shaped by firms that are already ahead in the digital economy. Others consider that adopting rules at this stage in this rapidly evolving area is premature and unduly reduces policy space for policymakers. Both positions note, however, that the existing institutional set-up of international trade and investment relationships may be ill-equipped to deal with issues arising with the new digital technologies. The UNCTAD intergovernmental machinery, in the context of the consensus-building pillar, may provide a suitable platform for dialogue on these issues to facilitate a convergence of approaches.

VII. Conclusions and policy recommendations

25. Digitalization represents a profound transformation of all aspects of economic life. It opens considerable opportunities for the implementation of the 2030 Agenda for Sustainable Development, but those opportunities will not materialize if proactive policies are not implemented at the national and international levels to address the significant challenges that digitalization raises, particularly for developing countries. This note has presented some of the policies that member States could consider in their discussions at the Trade and Development Board. These policies include the following:

(a) Digitalization, in the context of existing divides in access to the Internet and the overall readiness of developing countries to benefit from digital technologies, calls for a significant scaling up of the support to developing countries to improve ICT and related infrastructure, skills and enabling environment for the digital economy. In this regard, member States may wish to consider the role of various international cooperation initiatives, including mobilizing the UNCTAD eTrade for all platform for broader sharing by all countries in the benefits of digitalization.

(b) Countries should consider adapting their education and training systems and policies to cope with the challenges of the digital economy. A broad spectrum of digital skills needs to be incorporated at all levels of the education system. Emphasis is needed on removing existing biases that hamper digital skills development among women and girls.

(c) Governments should consider how social protection systems can be adapted to mitigate the risk of increased polarization and income inequality that digitalization may raise.

(d) Innovation policy in developing countries should evolve towards complementing capabilities to absorb and adapt existing technologies with those needed to generate innovative products and services that are customized for local consumers. The effectiveness of such approaches could be reinforced through more demand-side-oriented industrial policies.

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Plugging financial leakages and mobilizing domestic and international resources to deliver on the Sustainable Development Goals

Note by the UNCTAD secretariat

Executive summary

The achievement of the Sustainable Development Goals faces a financing gap of trillions of dollars. Domestic resource mobilization can help close this gap, yet requires a combination of increased public revenues and the establishment of a virtuous profit and investment nexus. Illicit financial flows from developing countries pose an important challenge to the mobilization of development finance, and thus require close cooperation at national and international levels. Estimates of the magnitude of such flows are not specific and vary between studies, yet in all instances are cited as hundreds of billions of dollars per year, with transactions related to cross-border taxes accounting for two thirds of this amount. Illicit financial flows have potentially strong direct and indirect damaging impacts on States and society, and a core concern is the impact on income equality within and across countries. This note provides policy recommendations on combating such flows.

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I. Mobilizing domestic and international resources to deliver on the Sustainable Development Goals: Key considerations

1. The achievement of the Sustainable Development Goals faces a significant financing gap. Estimates vary, but the figure is likely in the trillions of dollars, given current investment levels.[1] From the point of view of domestic resource mobilization, closing this gap requires a combination of increased public revenues and the establishment of a virtuous profit and investment nexus.

2. A profit and investment nexus involves dynamic interactions between high profit expectations that induce private investment and, if realized in the markets, increase the capacities of domestic firms to finance future investment from retained earnings. Investment activity is, therefore, not narrowly determined by levels of pre-existing savings that, by definition, may be low.[2]

3. Crucially, a self-sustaining profit and investment nexus does not emerge spontaneously but requires coordinated and proactive policy intervention. Domestic banking systems that can provide liquidity and align credit creation with developmental priorities are of central importance, including for large-scale public investment in core infrastructural needs characterized by high levels of long-term social returns but low levels of short-term private profitability. A profit and investment nexus also requires the use of financing instruments that create temporary learning rents for dynamic firms in priority sectors, to promote domestic innovation capacity.

4. From the point of view of international resource mobilization for structural transformation, the most important channel is a development-friendly system of international trade that provides increased access by developing countries to export markets, in accordance with target 17.11 of the Sustainable Development Goals. An increase in external demand can reinforce a domestic profit and investment nexus by raising the profit expectations of domestic firms, inducing higher rates of domestic investment and further increasing capacity to finance future investment from retained earnings. In addition, higher exports earnings are an important source of additional tax payments and other public revenue, and thereby of increased fiscal space for development financing.

5. Given the scale of productive investment required to achieve the Goals by 2030, substantial transfers from advanced to developing economies remains essential, whether in the form of aid, other types of international public finance, debt relief or private foreign direct investment. A core consideration is that not only should both public and private international financial resources be scaled up, but that such resources should be appropriately channelled to further support a virtuous profit and investment nexus in developing countries. Many developing countries and their larger firms had ample access to cheap capital inflows in 2011–2014, yet these resources did not, by and large, serve to finance strategically important and productive investment activities.[3]

6. Policies such as financial inclusion and blended finance[4] are insufficient on their own to effectively address the need to substantially scale up development finance and to proactively channel financial resources into long-term developmental investment projects with, initially, low private profitability. Broadened access to digitalized financial services is unlikely to substantially increase the profit expectations of small and medium-sized

[1] UNCTAD, 2014, *World Investment Report 2014: Investing in the [Sustainable Development Goals] – An Action Plan*, United Nations publication, Sales No. E.14.II.D.1, New York and Geneva.

[2] UNCTAD, 2016, *Trade and Development Report, 2016: Structural Transformation for Inclusive and Sustained Growth*, United Nations publication, Sales No. E.16.II.D.5, New York and Geneva.

[3] Ibid.

[4] Financial inclusion refers to the process of providing access to bank accounts and other financial services to poorer sections of the economy and, more broadly, to the digitalization of financial transactions (see http://www.worldbank.org/en/topic/financialinclusion/overview). The Addis Ababa Action Agenda of the Third International Conference on Financing for Development defines blended finance as finance "which combines concessional public finance with non-concessional private finance and expertise from the public and private sector" (A/RES/69/313).

enterprises and thereby contribute to the emergence of a viable profit and investment nexus. Leveraging scarce international public finance, including official development assistance, to attract primarily foreign private capital through subsidies such as public loan guarantees, public–private partnerships, first-loss policies and investment grants, may have high potential opportunity costs. Unless such capital can also be tied into long-term, high-risk transformational investment projects, the direct use of international public finance to support structural transformation might yield more stable results. For example, a recent survey found that blended finance instruments had mobilized an estimated $81.1 billion of private capital in 2012–2015, with government guarantees representing almost half of the private-sector instruments used.[5] This amount is far from meeting the estimated annual financing gap for achieving the Sustainable Development Goals.

7. International and domestic efforts in resource mobilization for development are also closely interlinked through the need to reduce, as much as possible, the exposure of developing countries to external shocks to export prices, cross-border capital flows and external debt-service burdens. Under conditions of frequent shocks of this kind, the ability of developing countries to steer nascent domestic banking and financial systems towards the delivery of effective long-term development financing is dominated by short-term concerns about tackling immediate liquidity constraints and by diverting much needed development finance to hedge against such liquidity risks through the build-up of substantive international reserves.

II. Combating illicit financial flows from developing countries

8. Illicit financial flows from developing countries pose another challenge to the mobilization of development finance that requires close cooperation at national and international levels. There is no single agreed definition of illicit financial flows, but they refer broadly to cross-border economic and financial transactions that make use of financial secrecy to remain hidden from public and regulatory view. A common categorization differentiates illicit financial flows related to crime, corruption and tax. Empirical estimates suggest that, of these three categories, about one third of total illicit financial flows represent criminal funds related to drugs, racketeering and terrorism. Resources emanating from corruption account for only about 3 per cent of the total, while cross-border tax-related transactions account for the remaining two thirds, about half of which emanate from transfer pricing between multinational enterprises.[6]

9. As the term illicit suggests, illicit financial flows include, but are not limited to, illegal flows (the Oxford English Dictionary defines illicit as not sanctioned by law, rule or custom). While the breadth of the term makes it more difficult to arrive at a single agreed definition, avoiding a narrow legalistic definition matters for many reasons. Illicit financial flows are cross-border flows and therefore also operate across national legislative systems that may differ for reasons unrelated to whether such flows are considered harmful or abusive. From a development perspective, a narrow legalistic definition of illicit financial flows results in systematically understating the scale of the problem in lower-income, lower-capacity States. Such States are much less likely than more advanced States to have developed the administrative and legislative capacities to successfully uncover, challenge and sanction illicit activities in court.

[5] J Benn, C Sangaré and T Hos, 2017, Amounts mobilized from the private sector by official development finance interventions, Development Cooperation Working Paper No. 36, Organization for Economic Cooperation and Development.

[6] A Cobham and P Janský, 2017, Illicit financial flows: An overview, Background paper presented at the first session of the Intergovernmental Group of Experts on Financing for Development, Geneva, 8–10 November 2017; UNCTAD, *Trade and Development Report, 2014: Global Governance and Policy Space for Development*, United Nations publication, Sales No. E.14.II.D.4, New York and Geneva.

10. A common element across the varying technical definitions of illicit financial flows is that such flows are hidden, whereby either the illicit origin of the capital or the illicit nature of the transactions undertaken is deliberately obscured. Given the common element of financial secrecy, methods to measure illicit financial flows and consequent quantitative estimates also vary widely and need to be considered with caution. UNCTAD, together with the United Nations Office on Drugs and Crime, is engaged in developing and testing a common methodology to measure illicit financial flows and to provide data for the agreed scale indicator under target 16.4. There is, however, little doubt that the least developed countries and Africa are particularly vulnerable to high and growing levels of illicit financial flows.[7]

11. According to the final report of the High-level Panel on Illicit Financial Flows from Africa,[8] flows may reach $50 billion annually and, in 1970–2008, amounted to around $22 billion annually, on average, or a total of $854 billion, a figure nearly equivalent to all official development assistance received in Africa in this period.[9] Data from Global Financial Integrity suggest that in 2002–2011, Africa registered the fastest rate of growth in illicit financial flows among regions, at a rate of 19.8 per cent per year, and the highest flows as a share of gross domestic product, at 5.7 per cent.[10] The Economic Commission for Latin America and the Caribbean estimates that, in Latin America and the Caribbean, illicit financial flows reached a total of $765 billion in 2004–2013, equivalent to, on average, 1.8 per cent of regional gross domestic product.[11]

12. An area of illicit financial flows in which evidence of stronger impacts on low-income countries has emerged is profit shifting by multinational enterprises. One recent influential estimate indicates that long-term annual losses due to profit shifting are $400 billion in members of the Organization for Economic Cooperation and Development, or 1 per cent of gross domestic product, and $200 billion in lower-income countries, or 1.3 per cent of gross domestic product.[12] The International Monetary Fund found that, in 2012, losses amounted to 5 per cent of corporate income tax in members of the Organization for Economic Cooperation and Development and almost 13 per cent in non-member countries.[13] UNCTAD estimated that, in 2012, losses amounted to around 8 per cent of corporate income tax, or $200 billion globally and $90 billion in lower-income countries.[14]

13. Beyond the rough magnitudes of immediate economic losses, illicit financial flows also have potentially strong indirect damaging impacts on States and society. Such flows undermine States in several ways, namely by lowering tax revenue, by fuelling destabilizing criminal activity and by undermining State legitimacy through corruption. This can result in a vicious cycle in which weakened Governments find it difficult to prevent the growth of illicit financial flows and are, in turn, further undermined by growing illicit financial flows.

14. From a human development perspective, illicit financial flows, by reducing tax revenue, may strongly affect health outcomes in low-income countries. Several studies indicate that tax revenue is a major statistical determinant of progress towards universal health coverage in lower-income countries and that this is overwhelmingly driven by direct

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[7] UNCTAD, 2016, *Economic Development in Africa Report 2016: Debt Dynamics and Development Finance in Africa*, United Nations publication, Sales No. E.16.II.D.3, New York and Geneva.

[8] See https://www.uneca.org/publications/illicit-financial-flows.

[9] Economic Commission for Latin America and the Caribbean, 2017, *Financing the 2030 Agenda for Sustainable Development in Latin America and the Caribbean: The challenges of resource mobilization*, United Nations Publication, Santiago.

[10] M Herkenrath, 2014, Illicit financial flows and their developmental impacts: An overview, *International Development Policy*, 5(3), available at poldev.revues.org/1863#text (accessed 10 April 2017).

[11] Economic Commission for Latin America and the Caribbean, 2017, *Flujos Financieros Ilicitos en América Latina y el Caribe*, United Nations publication, Santiago.

[12] E Crivelli, R A de Mooij and M Keen, 2016, Base erosion, profit shifting and developing countries, Working Paper No. 15/118, International Monetary Fund.

[13] International Monetary Fund, 2014, Spillovers in international corporate taxation, Policy paper.

[14] UNCTAD, 2015, *World Investment Report 2015: Reforming International Investment Governance*, United Nations publication, Sales No. E.15.II.D.5, New York and Geneva.

taxes on profits, income and capital gains. In addition, there appears to be a stronger statistical association between direct taxes and public health expenditure than between indirect taxes and such expenditure, with countries making greater use of direct taxes tending to exhibit higher levels of public health expenditure and broader coverage of and access to public health systems.

15. Another core concern is the impact of illicit financial flows on income inequality, both within and across countries. As has been widely documented, income inequality has risen sharply over the past two decades across a range of measures.[15] Much attention has focused on growing personal income inequality in developed economies for which detailed data is available, yet functional income distribution between wages and profits has also registered sharp changes, with a steep decline in the wage share in both developed and developing countries.[16] However, location is still more likely to determine the place of an individual in the global distribution of income than other factors, reflecting the uneven distribution of productive capacities in the global economy. For example, one study estimates that around 85 per cent of global inequality can be explained by differences in mean incomes between countries, while only 15 per cent can be attributed to variations within countries.[17]

16. Illicit financial flows are likely to exacerbate these trends through their negative impact on State capacity, in general, and on tax revenue and the ability of Governments to implement redistributive policies to correct trends of rising income inequality, in particular. Large public sectors have enabled developed countries to implement redistributive policies to limit the impact of growing inequality in functional income distribution on personal income distribution. In developing countries with much smaller public sectors, such policy space is more limited.[18]

17. Redistributive measures have generally become less effective in modifying the primary distribution of income, reflecting moves towards less progressive tax systems coupled with less generous social transfers in many developed and developing countries, yet the ability of elites, whether individuals or companies, to avoid or evade taxation, further limits space for such measures. One study shows that unaccounted-for inequality due to illicit financial flows is likely to be substantial in estimates of national income distribution, possibly adding 5 points to the Gini coefficient in some instances.[19] Another study shows how tax evasion in some Northern European countries is strongly concentrated in the top 0.01 per cent of wealth distribution, and thus how understated inequality can be if estimates rely on household surveys and data on tax reporting alone.[20]

18. Profit shifting by multinational enterprises further creates a disadvantage for smaller domestic businesses that are typically responsible for the majority of employment in a country. Moreover, cross-country inequality is thereby clearly exacerbated, with only a small number of jurisdictions consistently receiving disproportionate volumes of profit related to economic activity elsewhere, reflecting a race-to-the-bottom pattern of competition between States to attract corporate profits through low-impact tax-related regulatory regimes. In contrast, the scale of shifted profits and revenue losses is widely distributed across other jurisdictions, with the highest values in high-income countries but the most intense losses, with regard to gross domestic product and especially to tax revenue, in lower-income countries.

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[15] See, for example, T Piketty, 2014, *Capital in the Twenty-First Century*, Harvard University Press, London, and UNCTAD, *Trade and Development Report, 2012: Policies for Inclusive and Balanced Growth*, United Nations publication, Sales No. E.12.II.D.6, New York and Geneva.

[16] UNCTAD, 2016, *Trade and Development Report, 2016*; UNCTAD, 2012.

[17] B Milanovic, 2012, Global inequality: From class to location, from proletarians to migrants, *Global Policy*, 3(2): 125–134.

[18] UNCTAD, 2012.

[19] A Cobham, W Davis, G Ibrahim and A Sumner, 2016, Hidden inequality: How much difference would adjustment for illicit financial flows make to national income distributions? *Journal of Globalization and Development*, 7(2).

[20] A Alstadsaeter, N Johannesen and G Zucman, 2017, Tax evasion and inequality, available at http://www.nielsjohannesen.net/wp-content/uploads/AJZ2017.pdf (accessed 10 April 2017).

III. Suggested policy recommendations

19. The Trade and Development Board may wish to consider the following policy recommendations:

(a) With regard to measurement-related issues, including the relevant indicator under target 16.4, it is important to keep in mind that simple estimates at the level of individual countries should not be used to imply that countries are primarily responsible for progress in reducing illicit financial flows. Rather, given the nature of illicit financial flows and the importance of financial secrecy beyond their borders, international cooperation to combat illicit financial flows is essential.

(b) A policy that may be pursued at the national level, and also through coordination between Governments, is to require the publication of country-by-country reporting, for example under the new standard of the Organization for Economic Cooperation and Development.[21] Such a policy would increase transparency, and is likely to lead in the longer term to the widespread adoption of unitary taxation approaches, that is, taxation at the level of a multinational enterprise rather than at the level of individual subsidiaries.

(c) Commitments by Governments to full cooperation in the automatic exchange of tax information and public registers of beneficial ownership are helpful. In addition, countries and/or regional groups may consider removing legal protection for companies, trusts and foundations, from any jurisdiction, for which beneficial ownership information is not held in public registers. Measures such as the blacklisting of non-cooperative jurisdictions may also be used to reduce financial relationships with financial secrecy jurisdictions that continue to avoid the required standards of transparency and cooperation.

(d) The underlying problems of financial secrecy, without which illicit financial flows would be on a much lower scale, are global and systemic. Countries can and should take powerful domestic steps, yet there is a need for a global and inclusive forum that takes on board the interests of all countries, to achieve meaningful progress on this matter. Considerable progress has been made by the Organization for Economic Cooperation and Development and the Group of 20 with regard to some aspects of illicit financial flows, yet lower-income countries are excluded from discussions in these forums. Moving towards a high-level global commission under the United Nations may be a long road, and in the immediate future, countries could take a lead in deciding to negotiate and agree on an international convention on financial transparency.

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[21] See the agreed policy recommendations of the first session of the Intergovernmental Group of Experts on Financing for Development (TDB/B/EFD/1/3). On the new Organization for Economic Cooperation and Development standard, see https://www.oecd.org/tax/beps/country-by-country-reporting.htm.

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Building resilience to multiple shocks affecting people and sustainable development

Note by the UNCTAD secretariat

Executive summary

This background note outlines the nature and consequences of a variety of shocks that can affect – often simultaneously and symbiotically – the increasingly complex economic, environmental and social systems of today's world. To counter these shocks, it is necessary to build resilience into these systems. This note discusses key features of resilience-building programmes that can be implemented by member States, along with frameworks at the national and international levels that can facilitate this implementation. Policy recommendations are suggested for consideration by the Trade and Development Board.

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Introduction

1. In 2008–2009, many countries and economies entered into a special period in which financial, socioeconomic and environmental problems converged into a triple crisis.[1] This crisis signalled the possibility of a tipping point and might have opened the way for a new, more sustainable and inclusive development. In response, Governments spent about $3.3 trillion on stimulus measures. A substantial part of this spending went into "green" stimulus packages, which boosted investment in renewable energy, energy efficiency, public transport and rail, and electrical grid transmission.[2] The crisis also sparked discussion on reforming the international financial system to increase stability and equity.

2. However, by 2012, this window of opportunity was already drawing to a close. Most green stimulus packages were coming to an end. New packages were pre-empted by austerity measures and accompanying change in political discourse. Public attention refocused on the costs of sustainability transitions, and the idea of a green recovery became politically controversial and receded. Further, the financial crisis and associated bailouts led to even greater concentrations in the financial sector. This was coupled with increasing levels of income and wealth inequality in many economies.[3]

3. Many developing economies were fortunate enough to recover relatively quickly and stabilize towards long-term growth rates, but these apparent displays of economic resilience in the face of shocks often overshadowed the effects suffered by vulnerable and disadvantaged groups. For those struggling to adjust to permanently higher food and fuel prices, and those who may be newly unemployed and do not have access to social protection systems, the effects of shocks and crises continue to be felt. This resilience gap is large and growing.

4. Often, crises and natural disasters may seem too disparate to be related, but they are the result of shocks applied to complex systems that interlink social, economic and environmental factors, and that are characterized by increased connectivity and interdependence through trade and financial flows, dense transport networks and speed of communications. As such, Governments must frequently cope with concurrent, multiple shocks that require more comprehensive and systemic approaches to build resilience. Increased interdependence, while creating opportunities, has also intensified the effects of these shocks. Contagion can spread more rapidly and widely to touch countries, often with devastating effect, that had been untouched by initial shocks.

5. Developing countries, in particular least developed countries, are vulnerable to shocks due to structural weaknesses. A lack of diversity of exports, high dependence on primary commodities, high concentrations of poverty and geographical remoteness will reduce capacities to absorb shocks. However, it is not easy to address the issue of resilience, as all measures required by Governments to build the capacity of their countries to withstand, adapt to and recover from natural disasters and major economic crises – so that their people can continue to lead the kind of life they value[4] – require large investments upfront. Further, building resilience to multiple shocks will require an understanding of the specific vulnerabilities faced by different groups of countries and is a key objective in particular for small island development States, landlocked developing countries and the least developed countries.

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[1] See http://unctad.org/en/pages/PressReleaseArchive.aspx?ReferenceDocId=10791 (accessed 9 April 2018).

[2] E Barbier, 2011, Transaction costs and the transition to environmentally sustainable development, *Environmental Innovation and Societal Transitions*, 1(1):58–69.

[3] For further discussion on shifts in income distribution, see *Trade and Development Report, 2012: Policies for Inclusive and Balanced Growth* (United Nations publication, Sales No. E.12.II.D.6, New York and Geneva).

[4] Resilience as defined in Economic and Social Commission for Asia and the Pacific, 2013, *Building Resilience to Natural Disasters and Major Economic Crises* (United Nations publication, Sales No. E.13.II.F.3, Bangkok), theme study for the sixty-ninth session of the Commission.

6. The outcomes of global conferences, including the 2030 Agenda for Sustainable Development, focus on these challenges in different ways. For example, building resilience is acknowledged across a range of the proposed Sustainable Development Goal targets. Target 1.5 represents the core target: "By 2030 build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters".

7. The remaining sections briefly explore some types of prevalent shock and address the measures needed to build resilience to withstand them.

I. Types of shock affecting economic, environmental and social systems

A. Financial shocks

8. There are four main types of financial shock: banking crises, speculative bubble collapse, currency or exchange rate crises and sovereign debt defaults. In reality, financial crises often mutate from one type to another or show multiple symptoms. For example, the sub-prime crisis that began in 2007 in the United States of America turned into a debt crisis in the European Union, where some member States experienced increased difficulty in borrowing from international markets. Further, at a time of decreased demand, fiscal austerity policies also depressed economic activity and pushed these countries deep into recession.

9. The contagion from the crisis highlighted the extent of integration in financial systems, which increases the potential risks of cross-border transmission of shocks. More highly interconnected financial markets are more susceptible to systemic failures.[5] Much will depend on the structure of the markets and indeed the banking network,[6] as well as a range of factors, including gross domestic product growth, trade openness and stock market capitalization.

10. When the result of a shock is a large systemic financial crisis, one of the main challenges is to anticipate how all participants of the system are likely to act. In practice, markets are highly imperfect and as a result, it is difficult to restore stability to the system.

11. Systemic banking crises can result in major losses and fiscal distress. In the developed countries, these crises usually take the form of large losses in output and increases in public debt. However, developing countries frequently experience weak institutional capacity and limited access to global markets, and tend to experience higher fiscal costs associated with financial sector restructuring.

12. In taking measures to make financial markets more stable and reduce the potential for future crises, Governments and financial regulators need to strike a balance by making the financial system less volatile and vulnerable while not excessively limiting the capacity of capital markets to allocate funds to finance legitimate risk-taking. As a result of widespread financial sector reforms implemented after the 1997 crisis, the 2008 crisis weakened the export capacity of the largest developing countries in Asia. The region proved relatively resilient, as many countries held sound fiscal positions and could afford large stimulus packages.

[5] R Grilli, G Tedeschi and M Gallegati, 2012, Markets connectivity and financial contagion, Università Politecnica Delle Marche, Quaderno di Ricerca No. 382.

[6] F Fornari and L Stracca, 2012, What does a financial shock do? First international evidence, https://academic.oup.com/economicpolicy/article/27/71/407/1786135, *Economic Policy*, pp. 407–445.

B. Price shocks: Commodity prices

13. Commodities are typically characterized by low short-term elasticity of demand so that supply or demand fluctuations result in even greater price changes. As such, commodity prices tend to exhibit higher volatility than prices of manufactures.[7] Further, a range of factors have been identified as contributing to increased volatility in the past decade. As shown in various publications,[8] these include the following:

(a) Variable harvests resulting from increasingly fluctuating weather conditions;

(b) Decreasing inventory levels, reducing responsiveness to demand shocks;

(c) Inaccessibility of new natural resource supplies;

(d) Increasing demand for commodities from fast-growing developing countries;

(e) Increasing demand for biofuels, reducing agricultural output for food;

(f) Rising futures speculation in commodities;

(g) Increased correlation between commodities prices, oil prices being particularly influential.

14. As many least developed countries have commodity-dependent economies, prices can have a significant impact on their economies. Further, highly volatile prices reduce the ability of commodity-dependent countries to maintain steady income and spending. They also diminish Governments' capacities to stabilize current account balances, finance domestic and external debt, and provide social spending aimed at poverty reduction, for example. Volatile commodity prices make it difficult for stakeholders in commodity-dependent economies to plan for investments and production, which increases costs through perceptions of higher country risk, or access to and costs of finance.[9]

15. There are, moreover, close interlinkages between commodity price volatility and food security. Measures to mitigate the adverse effects of the variability of food prices include stockpiling physical commodities and using commodity risk management tools, compensatory financing schemes, commodity exchanges and social safety nets.

16. Speculative investments may have shifted some commodity prices away from the fundamentals.[10] This is suggested by the extent of co-movements among those commodities for which there are futures markets; those without futures markets seem unrelated. High prices of food and fuel threaten food security, increase inflation and lower the rate of poverty reduction. Sudden price moves can also cause a deterioration in the terms of trade, with high output losses.[11]

C. Environmental shocks

17. Climate is involved in most of the shocks that keep or bring households into poverty – notably, natural disasters (such as floods that cause asset loss and disability); health shocks (such as malaria that results in health expenditures and lost labour income); and crop

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[7] Discussion points taken from UNCTAD, 2011, Global crises and the commodity dependence of the least developed countries: Impacts, challenges and the way forward, Special event on commodity dependence and the impact of the multiple global crises on the least developed countries, Fourth United Nations Conference on the Least Developed Countries, Istanbul, 8 May 2011.

[8] CL Gilbert and CW Morgan, 2010, Food price volatility, *Philosophical Transactions of the Royal Society B*, 365(1554):3023–3034; UNCTAD, 2008, *Trade and Development Report, 2008: Commodity Prices, Capital Flows and the Financing of Investment* (United Nations publication, Sales No. E.08.II.D.21, Geneva and New York).

[9] UNCTAD, 2008.

[10] Economic and Social Commission for Asia and the Pacific, 2012, *Economic and Social Survey of Asia and the Pacific 2012: Pursuing Shared Prosperity in an Era of Turbulence and High Commodity Prices* (United Nations publication, Sales No. E.12.II.F.9, Bangkok).

[11] T Becker and P Mauro, 2006, Output drops and the shocks that matter, International Monetary Fund Working Paper No. 06/172.

losses and food price shocks (due to drought or crop disease).[12] Poor people are disproportionately affected, not only because they are often more exposed and invariably more vulnerable to climate-related shocks but also because they have fewer resources and receive less support from family, the community, the financial system, and even social safety nets to prevent, cope and adapt.

18. Climate change will worsen these shocks and stresses, contributing to a decoupling of economic growth and poverty reduction, thereby making it even harder to eradicate poverty in a sustainable manner. Impacts on agricultural production and prices – triggered by either gradual changes in long-term climate trends or more frequent and severe natural disasters – will affect poor people through food production impacts, higher consumption prices and changes in rural incomes. Although development and adaptation cannot prevent all negative impacts from climate change, it is envisaged that through successful implementation of the Sustainable Development Goals, they can prevent or offset many of its effects on poverty by 2030. Nonetheless, development must be rapid and inclusive to reduce poverty and provide poor people with social safety nets and universal health coverage.

D. Conflict shocks

19. Conflict can have a devastating effect across all areas of the economy, destroying human, physical, institutional and social capital and capacities. With regard to the relationship between trade and conflict, the literature is not conclusive.

20. Glick and Taylor (2005)[13] finds a decrease in trade of up to 80 per cent as a result of the world wars, and that the negative and persistent effect of war on trade applies for neutral countries as well. Blomberg and Hess (2006)[14] evaluates the impact of a broader range of violence (including terrorism, external and internal war, interethnic fighting and revolutions) on trade and finds that the presence of violence is equivalent to a 30 per cent tariff on trade. Martin et al. (2008)[15] estimates a negative impact of war on trade, with the effect persisting for more than a decade after war has ceased.

21. However, recent research shows that the effect of conflict on trade may be more nuanced. Kamin (forthcoming)[16] shows that the type and number of conflicts in which the country is involved influences the impact on trade flows, with differing impacts for exporters and importers. It suggests that smaller conflicts between armed groups have a small negative effect for importers only and potentially a positive effect for exporters, whereas aggression towards civilians has a negative impact on trade only for importers. Further, major conflicts reduce trade flows by up to 67 per cent, with higher negative effects experienced by exporters than importers.

E. Impact of shocks on vulnerable groups

22. Specific segments of the population are especially vulnerable to shocks. Women and children, persons with disabilities and the elderly are all affected to a greater degree by shocks. Those already disadvantaged are likely to be hit hardest by economic crises and natural disasters and often lack the requisite social protection. For example, girls are the first to be taken out of school during crises, and women come under further pressure after a disaster, due to their traditional responsibilities for caring for children and the elderly.

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[12] Discussion taken from Economic and Social Commission for Asia and the Pacific, 2012; and World Bank, 2016, *Shock Waves: Managing the Impacts of Climate Change on Poverty* (Washington, D.C.).

[13] R Glick and AM Taylor, 2005, Collateral damage: Trade disruption and the economic impact of war, National Bureau of Economic Research Working Paper No. 11565.

[14] SB Blomberg and GD Hess, 2006, How much does violence tax trade? *Review of Economics and Statistics*, 88(4):599-612.

[15] P Martin, T Mayer and M Thoenig, 2008, Make trade not war? *Review of Economic Studies*, 75(3): 865–900.

[16] K Kamin, forthcoming, The impact of conflict on trade: Evidence from panel data.

II. Building resilience to multiple shocks

23. Building resilience to reduce the impact of shocks on developing countries requires a wide range of national and international actions, not only to deal with such impacts when they occur, but also to foster prevention and reduce the risks of shocks ex ante.

A. Economic diversification

24. The most important feature of sustainability transitions is the challenge of economic diversification. Countries will have to change the shape of their economies and the way in which they seek to develop the industries that will power their economies.

25. Building resilience to and managing shocks requires a shift in technological pathways and related investments towards sustainability transitions. Albeit necessary, sustainability transitions may not be risk free and could disrupt long-entrenched markets, create new ones, challenge economic and social systems to adapt at uncomfortable speeds and be accompanied by significant shifts in geopolitical power and relations. While the transitions will be driven primarily by environmental and long-term survival concerns, if not managed well, they will set back the achievement of broader Sustainable Development Goals such as poverty reduction, decent work and economic growth, and reduced inequality.

26. The actual or potential impacts of sustainability transitions on innovation, employment, economic and trade performance are not yet fully understood. Particularly scarce is the analysis of actual and potential impacts of sustainability transitions on developing countries, where economic drivers are often substantially different. Guidance for developing country Governments on managing trade-offs and leveraging co-benefits of sustainability transitions is, therefore, crucial. For example, attempts by Governments to turn green growth into competition over jobs have translated into protectionism, with more than 7,000 trade protection measures implemented by countries since 2009. It increased markedly in 2012, and a new high was recorded in 2016, when 571 of the 771 trade interventions tracked by Global Trade Alert were characterized as discriminatory, and 200 as liberalizing.[17] Data for 2017 point to a continuation of this trend.

27. The Paris Agreement under the United Nations Framework Convention on Climate Change makes economic diversification a shared challenge. For the first time, countries are looking at a collective transformation, not just for individual economies, but for the global economy as well. This transformation will require a massive reallocation of resources at the international level and fundamental structural changes at the domestic level, which would raise many of the equity and distributional concerns that have been central to the work of UNCTAD in the past.

B. Circular economy

28. A variety of business models are being tested, including those based on circularity. A circular economy refers to markets that give incentives to reusing rather than scraping and then extracting new resources. According to some estimates, keeping materials longer in the economy could reduce by 33 percent the carbon dioxide emissions embedded in products.[18] This is not only an opportunity to protect the environment, but to develop new sectors, create jobs, generate income, use resources wisely and develop new capabilities, as well.

[17] See http://www.globaltradealert.org/global_dynamics/flow_all (accessed 9 April 2018).

[18] UNCTAD, forthcoming, Delivering upon the potential of a circular economy in international trade, Policy brief.

29. Circularity requires a bridge between trade in goods and trade in services. The quality, energy efficiency and durability of those goods are higher when a function is delivered as a service. A leased printer, shared car or communal washing machine tends to be more robust and efficient than one that is privately owned. A number of countries are already exploring economic circularity, including Brazil, China, India, Kenya, the Lao People's Democratic Republic and the European Union. India and the European Union are tapping potential savings of $624 billion and €320 billion, respectively.[19]

30. Promoting circularity becomes more challenging in complex products and in longer supply chains. As some countries export industrial products and others have economies that focus more on services, trade results in a net transfer of materials from one region to another. Current trade disputes involving scrap materials serve to underline the actual and potential problem.[20]

C. Multilateral trading system

31. Broad-based economic diversification is unthinkable without trade. The benefits of a diversified export structure have been well established, as countries tend to become what they export.[21] Imports can improve developing countries' access to a wide range of goods, services and technologies that can serve as platforms for economic diversification.

32. At its core, multilateralism remains the first best option for an international trading system to act as a fundamental driver of economic and social transformation. It provides a framework of rules, regulations and guidelines to which all members should adhere, resulting in a level playing field that enables fair and open access to the international trading system for all nations, rich and poor, large and small. The multilateral trading system also provides dispute resolution mechanisms that offer fairness and predictability but more importantly, solutions to commercial conflicts.[22]

33. United Nations Member States have repeatedly declared their commitment to promoting a universal, rules-based, open, transparent, predictable, inclusive, non-discriminatory and equitable multilateral trading system. This is consistent with target 17.10 of the Sustainable Development Goals.[23]

34. Moreover, most emerging issues can no longer be solved unilaterally. The degradation of the oceans or the causes and consequences of climate change that threaten the ability of large numbers of people to lead lives of dignity, should be addressed by world consensus. The issues require concerted and collective actions, and global implementation. The multilateral trading system provides such a framework and forum.

D. Infrastructure

35. All forms of infrastructure [24] are vulnerable to shocks, no matter how well designed, constructed or maintained. As such, Governments need to identify critical infrastructure requiring a higher level of protection. A resilient system of critical infrastructure comprises

[19] Ellen MacArthur Foundation, Sun Institute and Systemiq, 2017, Achieving "growth within", available at https://www.ellenmacarthurfoundation.org/publications/achieving-growth-within; UNCTAD, forthcoming, Delivering upon the potential of a circular economy in international trade, Policy brief.

[20] China has recently taken steps to close its waste and scrap market – the world's largest – to imports. China is considering additional notifications in the future on other scrap materials. It is unclear which materials could join the ban list.

[21] F Kaulich, 2012, Diversification vs. specialization as alternative strategies for economic development: Can we settle a debate by looking at the empirical evidence? Inclusive and Sustainable Industrial Development Working Paper 03/2012, United Nations Industrial Development Organization.

[22] For further discussion on the role of the multilateral trading system and development outcomes, see A/72/274.

[23] See General Assembly resolutions 70/187 and 71/214.

[24] Discussion in this section draws from Economic and Social Commission for Asia and the Pacific, 2013.

both hard infrastructure (buildings or networks, for example) and soft infrastructure (institutions, users, regulations and legislation). Both are increasingly interdependent, so that shocks in one type of infrastructure can trigger system failure across the system. Improving overall resilience therefore involves recognition and management of these interdependencies and requires cooperation by all stakeholders.

36. Although each country has its own specific priorities, lifeline systems, including power, water, wastewater, communication and transportation, are fundamental to support emergency response operations. Further advances in information and communication technologies are helping improve the disaster resilience of communities and people, and bridging the gaps in last-mile connectivity.

E. Social protection

37. Governments can support community resilience primarily by strengthening systems of social protection, such as pensions, benefits, and access to health care. It is crucial to provide a basic social protection floor based on the understanding that all citizens have the right to benefits and that the State has a vital role in ensuring access to, if not in the actual delivery of programmes. At times of economic contraction, social protection systems provide useful countercyclical measures. In addition to protecting the most vulnerable people by supporting consumption, they help smoothen the economic impact of financial crises.

38. Ideally, the strategy should be one of adaptive social protection – integrating social protection with disaster risk reduction and climate change adaptation. In many developing countries, social protection will involve a combination of formal and informal channels – taking advantage of informal connections and systems but supporting these with formal mechanisms where appropriate. Social protection should form part of a long-term socioeconomic security plan, based on a solid foundation of human rights and social inclusiveness, and on a commitment to equitable economic development. Social protection measures are most effective if they are already part of national development strategies; then, if necessary, they can be expanded in times of emergency. They should therefore be designed to be scalable.

F. International frameworks

39. National authorities alone cannot deal with shocks. In a globalized world, such crises now have trans-border implications. Natural disasters too frequently cross national borders and can have international implications wherever they occur. Nowadays, such issues also need to be addressed by collective action, especially regional cooperation.

40. As highlighted previously, a contemporary international framework exists. As in target 1.5 of the Sustainable Development Goals, resilience is also a core feature of target 13.1: "strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries".

41. Building resilience also underpins many other targets: targets 2.4 (agricultural practices), 9.1 (infrastructure), 11.5 (reducing impact of disasters) and 11.b (resilience of cities). Similarly, the Fourth United Nations Conference on the Least Developed Countries, in adopting the Programme of Action for the Least Developed Countries for the Decade 2011–2020, identified "multiple crises and other emerging challenges" as one of the eight interlinked priority areas for the sustainable development of the least developed countries. In 2012, the Secretary-General's High-level Panel on Global Sustainability issued a report entitled "*Resilient People, Resilient Planet – A Future Worth Choosing*", outlining a vision towards sustainable development through inclusive economic growth, environmental development and social equity. Building resilience to shocks is also a key feature of many other frameworks such as the Vienna Programme of Action, the Samoa Pathway and Agenda 2063 of the African Union.

42. So far, however, most collective action has remained at the level of information exchange and dialogue. To truly address the issue of building resilience to shocks, countries must consider the possibility of institutionalization of mechanisms for collective actions, particularly for the most complex shocks and crisis. With regard to resilience to financial shocks, since the triple crisis, UNCTAD has continued its call to further reform the international financial system. Its long-standing proposal has been to establish a cooperative global financial and monetary system "that would assure, on a multilateral basis, the same rules of the game for all parties involved, more or less in the same way as multilateral trade rules apply to any trading partner"[25] and to advance the development agenda by "aligning any new goals and targets to a policy paradigm that can … establish a stable international financial system that boosts productive investment...".[26] In terms of the institutional framework to support this, the notion of "a truly comprehensive and inclusive international financial institution – a world financial organization" has previously been proposed.[27]

43. The response at the international level, as at the national level, will depend on the existing capacities and priorities of member States, as well as the type of shocks being addressed. In each case, consideration should be given as to whether the necessary actions constitute adjustments to existing, often disparate, arrangements, or instead complete reform and the establishment of new institutions. However, this new framework of multilateral cooperation is organized, comprehensive programmes of technical assistance will be needed to build resilience as a complement to multilateralism, particularly in support of the efforts of small island developing States, landlocked developing countries and least developed countries.

III. Suggested policy recommendations

44. The Trade and Development Board may wish to consider the following recommendations:

(a) For resilience-building policies to be most effective, policymakers should identify and analyse the actual or potential impacts of sustainability transitions on innovation, employment, economic and trade performance;

(b) It may be preferable to ensure against shocks by focusing environmental, trade and social policies increasingly on workers and communities rather than on particular jobs and sectors;

(c) It is important to identify critical infrastructure that requires a higher level of protection from shocks, including certain lifeline systems, which are fundamental to support emergency response operations;

(d) Systems of social protection should be strengthened to provide buffers to shocks, especially for particularly vulnerable segments of the population. These systems should be made adaptive – integrated with disaster risk reduction and climate change adaptation – and scalable;

(e) Steps should be taken to establish a cooperative global financial and monetary system that would ensure, on a multilateral basis, that the same rules of the game are applied to all parties concerned, just as multilateral trade rules apply to all trading partners.

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[25] See http://unctad.org/en/pages/PressReleaseArchive.aspx?ReferenceDocId=10791 (accessed 10 April 2018).

[26] UNCTAD, 2014, *Trade and Development Report, 2014: Global Governance and Policy Space for Development* (United Nations publication, Sales No. E.14.II.D.4, New York and Geneva).

[27] See http://unctad.org/en/pages/SGStatementArchive.aspx?ReferenceItemId=16559.

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Activities of UNCTAD in support of small island developing States and in support of landlocked developing countries

Activities carried out in support of the implementation of the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014–2024

Executive summary

The Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014–2024 invites the governing bodies of organizations in the United Nations system to mainstream the implementation of the Programme of Action into their programme of work and to conduct sectoral and thematic reviews of the Programme of Action, as appropriate.[1]

This report has been prepared pursuant to a request by the thirty-first special session of the Trade and Development Board for a review of the activities carried out by UNCTAD in support of the Programme of Action.[2] It provides a description of UNCTAD-wide activities in support of the implementation of the Programme of Action since its adoption in 2014. It also includes lessons learned and a way forward for the further implementation of actions and commitments within the mandate and competence of UNCTAD. It aims to assist the Trade and Development Board in its consideration of the related item of the provisional agenda and to serve as an input to the midterm review on the implementation of the Programme of Action by the General Assembly, to be held no later than December 2019.

[1] A/RES/69/137, paragraph 76.
[2] TD/B/S-XXXI/2.

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Introduction

1. The Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014–2024 was adopted at the second United Nations Conference on Landlocked Developing Countries, held in Vienna from 3 to 5 November 2014. The aim of the conference was to address the particular needs and challenges faced by landlocked developing countries due to their geographical remoteness and low levels of socioeconomic development.

Their lack of direct access to the sea makes them dependent on transit countries for effective linkages to global markets. Furthermore, their geographical distance from the nearest seaport puts them at a disadvantage with regard to time and costs related to the transportation of goods, as transport by land is significantly more expensive than maritime transport.

The problem of distance is compounded by the challenges of multiple border crossings, diverging customs procedures and requirements and incompatible transport systems and regulations. As a result, landlocked countries have been found to trade by, on average, 30 per cent less than coastal countries. The rising importance of global value chains multiplies the negative impact of trade costs on the global integration prospects of landlocked countries. Furthermore, 27 of the 32 landlocked developing countries are dependent on primary commodities for more than 50 per cent of their exports, rendering them highly vulnerable to external price shocks and limiting the impact of trade and growth on employment creation and poverty reduction.

2. The challenges of remoteness from the sea and commodity dependence faced by landlocked developing countries have an important impact on overall development prospects. Landlocked developing countries experience lower average growth rates than coastal countries; according to one study, being landlocked reduces growth by about 1.5 per cent.[3] In addition, half of the 32 landlocked developing countries are among the group of the least developed countries.

3. After an extended period of rapid growth, landlocked developing countries as a group have recently experienced a sharp reduction in average gross domestic product growth.

In 2000–2013, the average growth rate in landlocked developing countries was above 7 per cent, yet in 2014, it was 5.6 per cent, and further slowed in 2016, to 2.8 per cent. In per capita terms, the rate declined from 3.1 per cent in 2014 to 0.4 per cent in 2016. Other developing countries have also experienced an economic slowdown, for example the least developed countries, whose annual average growth slowed from 5 per cent in 2014 to 3.8 per cent in 2016, yet no other group has experienced as sharp a slowdown as have the landlocked developing countries.

4. The Vienna Programme of Action aims to address the challenges of landlocked developing countries in a coherent manner and to contribute to an enhanced rate of sustainable and inclusive growth and poverty reduction. The Programme of Action recognizes that transit countries also face significant challenges, as many are also developing countries. Transit trade from neighbouring landlocked developing countries can impose a significant burden on the transport infrastructure and customs facilities of transit countries. The Programme of Action therefore also addresses the development needs of transit countries and highlights the need for increased collaboration and coordination between landlocked developing countries, transit countries and development partners. It identifies the following six priorities for action, each with specific goals and objectives for landlocked developing countries, transit countries, as applicable, and development partners, the implementation of which will contribute to the ultimate objective of transforming landlocked countries into land-linked countries:[4]

[3] J. MacKellar, A. Worgotter and J. Worz, 2002. Economic growth of landlocked countries. In: G. Chaloupek, A. Guger, J. Nowotny and G. Schwodiauer, eds., *Economics in Theory and Practice*. Springer, Berlin, 213–226.

[4] A/RES/69/137.

Priority 1: Fundamental transit policy issues.

Priority 2: Infrastructure development and maintenance:

(a) Transport infrastructure;

(b) Energy and information and communications technology infrastructure

Priority 3: International trade and trade facilitation:

(a) International trade;

(b) Trade facilitation.

Priority 4: Regional integration and cooperation.

Priority 5: Structural economic transformation.

Priority 6: Means of implementation.

5. This report outlines the technical assistance and capacity-building activities of UNCTAD in support of the implementation of the Vienna Programme of Action since its adoption, following the order of the priorities for action.

I. Priority 1: Fundamental transit policy issues

6. In light of the dependence of landlocked developing countries on transit countries for access to international markets, the freedom of transit, along with transit infrastructure and logistics, plays an important role in the development prospects of landlocked developing countries.

7. Against this background, UNCTAD provides technical assistance and capacity-building to assist landlocked developing countries and transit developing countries with implementation of the Agreement on Trade Facilitation of the World Trade Organization. This includes support in the implementation of article 11 of the Agreement, which contains specific provisions on transit, as well as other articles relevant for transit collaboration, such as article 1.1 on publication, article 1.2 on information available through the Internet, article 2.1 on opportunity to comment, article 6.3 on penalties, article 7.7 on authorized operators, article 8 on border agency cooperation and article 10 on formalities. During the reporting period, UNCTAD provided assistance in the implementation of the Agreement to 18 landlocked developing countries[a] and 17 transit developing countries.[b]

8. UNCTAD has provided technical assistance on transit cooperation to a number of regional organizations, in particular the following: Central European Free Trade Agreement, East African Community, Economic Community of West African States, Latin American Integration Association and Southern African Customs Union. In 2015, UNCTAD, in collaboration with the Government of Paraguay, organized a seminar in Asunción for countries in the Latin American Integration Association region, to provide capacity-building on implementing good practice solutions for the transit of goods. Participants from Argentina, Brazil, Colombia, Chile, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay attended the seminar.

9. UNCTAD participated in the review of the transit guidelines of the World Customs Organization, which led to the publication of the *Transit Handbook* in 2017.

10. In March 2018, UNCTAD organized a pilot workshop for national transit coordinators, referred to in article 11 of the Agreement on Trade Facilitation, to better define and develop their activities and work. Participants from Burundi, Rwanda and

[a] Azerbaijan, Botswana, Burundi, Ethiopia, Kazakhstan, Lesotho, Mali, Mongolia, Paraguay, the Plurinational State of Bolivia, the Republic of Moldova, Rwanda, Swaziland, Tajikistan, the former Yugoslav Republic of Macedonia, Uganda, Zambia and Zimbabwe.

[b] Benin, Cameroon, Djibouti, Gabon, Cote d'Ivoire, Kenya, Liberia, Myanmar, Namibia, Nigeria, Pakistan, Peru, Senegal, South Africa, the Sudan, the United Republic of Tanzania and Viet Nam.

Uganda, as well as from the neighbouring transit developing countries of Kenya and the United Republic of Tanzania, attended the workshop, together with representatives from the secretariat of the East African Community and the management of the Central Corridor Transit Transport Facilitation Agency and the Northern Corridor Transit and Transport Coordination Authority. UNCTAD will work with other international organizations to further develop this training course, which can then be rolled out in other regions.

II. Priority 2: Infrastructure development and maintenance

A. Transport infrastructure

11. Promoting sustainable freight transport systems is crucial to achieving economically efficient, socially viable and environmentally friendly transportation and logistics services. To this end, UNCTAD is working to strengthen the capacity of developing countries, including landlocked developing countries, to develop and implement sustainable transport policies and measures, as well as financing actions and mechanisms.

12. Since the adoption of the Vienna Programme of Action, UNCTAD has worked with the Central Corridor Transit Transport Facilitation Agency and the Northern Corridor Transit and Transport Coordination Authority in East Africa to assist them in their efforts to implement a sustainable freight transport strategy. Activities have included a training and capacity-building workshop held in Nairobi from 14 to 18 March 2016, which benefited more than 80 participants from Burundi, the Democratic Republic of the Congo, Kenya, Rwanda, South Sudan, Uganda and the United Republic of Tanzania. The workshop aimed to strengthen the capacity of policymakers in transport, infrastructure and finance; transport operators in rail, road, internal waterway and port networks; and representatives of key financial institutions in sub-Saharan Africa to promote and finance sustainable freight transport systems through sound transport policy measures and adequate financing actions and mechanisms.

13. As a follow up to the workshop, the Northern Corridor Transit and Transport Coordination Authority, in collaboration with UNCTAD, the United Nations Environment Programme and the Heavy-duty Diesel Vehicles and Engines initiative of the Climate and Clean Air Coalition, developed a green freight programme, the first in Africa. The programme was officially launched at the 42nd meeting of the Executive Committee of the Authority on 16 January 2017.

B. Energy and information and communications technology infrastructure

14. The Vienna Programme of Action recognizes the important role played by energy infrastructure and access to affordable, reliable and renewable energy in modernizing information technology and transit systems and enhancing productive capacities to achieve growth and sustainable development. In this context, the Programme of Action states that actions by landlocked developing countries include developing national energy policies to promote modern, reliable and renewable energy, with a view to enhancing capacities and ensuring access to energy.

15. The *Least Developed Countries Report 2017: Transformational Energy Access* highlights the role that access to energy plays in the process of structural transformation in the group of the least developed countries, which includes 16 landlocked developing countries. The report stresses the importance of ensuring access to energy not only for domestic consumption needs, but also for productive processes. The report provides a series of recommendations for countries to take into account when formulating national energy policies.

16. In the area of information and communications technology infrastructure, UNCTAD has assisted several landlocked developing countries in defining their policy frameworks for science, technology and innovation. In October 2017, UNCTAD completed the *Science, Technology and Innovation Policy Review: Rwanda*. The report highlighted the core challenges faced by Rwanda in this field and noted that innovating and using technology to improve the competitiveness of firms and industries was a core issue. The question of generating demand for technology in industry also required greater attention, and an immediate concern was to strengthen linkages among key stakeholders in this field, such as

the Government, firms, academia and training institutions and those with public and environmental interests. Given the development ambitions of Rwanda, a national science, technology and innovation policy needed to be formulated and implemented using the conceptual framework of a national system of innovation. Following delivery of the report, science, technology and innovation-related policy developments in Rwanda have accelerated, and a five-year strategy and plan of implementation are in preparation as at January 2018. Within the scope of this policy review, UNCTAD undertook two related activities. First, a training session on innovation was conducted for science, technology and innovation policymakers and stakeholders during a national workshop on science, technology and innovation policy, with the participation of around 60 policy experts, including 10 women. Second, a critical commentary and suggestions for revision were provided on a draft national science, technology and innovation and research strategy.

17. UNCTAD is working with the Government of Ethiopia on the preparation of a science, technology and innovation policy review that aims to contribute to the redrafting of the national science, technology and innovation policy of Ethiopia.

18. In 2017, UNCTAD conducted Rapid eTrade Readiness Assessments for Bhutan and Nepal. These assessments aim to assist countries in better engaging in and benefiting from electronic commerce (e-commerce) from both a national and international trade perspective, and focus on seven areas, namely e-commerce readiness and strategy formulation; information and communications technology infrastructure; legal and regulatory frameworks; payment systems; access to finance for e-commerce; skills development for e-commerce; and trade facilitation and logistics. The assessments help policymakers to identify e-commerce capacity assets and gaps, bottlenecks and opportunities, and provide an action-oriented matrix to help decision makers and development partners to address challenges and take advantage of opportunities. The final product is aligned with the overall developmental trajectory of the country assessed. A number of assessments are planned for 2018, including in landlocked developing countries such as Afghanistan and Lesotho.

III. Priority 3: International trade and trade facilitation

A. International trade

19. One of the core objectives of the Vienna Programme of Action is to assist landlocked developing countries in overcoming the disadvantages of remoteness and commodity dependence, and in increasing their participation in global trade, including with regard to the manufactured component of exports. Since the adoption of the Programme of Action, the overall share of landlocked developing countries in global exports of goods has fallen, from 1.2 per cent in 2014 to 0.9 per cent in 2016, largely due to a decline in global commodity prices.

20. UNCTAD provides assistance to several landlocked developing countries in integrating into the multilateral trading system. UNCTAD has supported the least developed landlocked countries in multilateral trade negotiations in key areas of interest, including duty-free, quota-free market access and rules of origin, the implementation in Africa of preferential treatment to services and service suppliers of least developed countries and participation in services trade, as well as special and differential treatment. UNCTAD has supported a number of countries in understanding the development implications of granting duty-free, quota-free market access to all of the least developed countries, including landlocked developing countries. In addition, UNCTAD has provided assistance to several landlocked developing countries through its support to the least developed countries, the African Group and the African, Caribbean and Pacific States in their substantive preparations for the Eleventh Ministerial Conference of the World Trade Organization, held in Argentina in December 2017. In particular, UNCTAD made substantive contributions to the retreats of ambassadors of the African Group in 2016 and 2017.

21. UNCTAD provided assistance in the preparation of trade policy frameworks to Botswana in 2015 and 2016 and to Zambia in 2014 and 2015. If implemented, the

frameworks could assist Botswana and Zambia in diversifying their economies, exploring new export markets and promoting their integration into global value chains.

22. In 2014, UNCTAD prepared the *Services Policy Review: Paraguay*, with the goal of strengthening national supply and export capacity in services. The review assisted Paraguay in identifying challenges and opportunities in priority services sectors, including construction and associated professional services, as well as education, finance and telecommunications services. The review also provided guidance on the design and implementation of policy reforms and initiatives in Paraguay in these sectors, such as promoting new legislation for the construction sector, addressing the need to ensure financial inclusion and improving the quality of education services by incorporating scientific and technological content.
Such measures will foster the growth of services sectors and increase national capacity to export, thereby contributing to overall economic and social development in Paraguay. Upon the request of the Government of Paraguay, UNCTAD has launched the process of conducting a second services policy review.

23. Accession to the World Trade Organization remains a key challenge for landlocked developing countries that remain outside of the multilateral trading system. In 2016 and 2017, UNCTAD continued to provide technical assistance to several landlocked developing countries in their accession processes, to help build trade policy and negotiation capacities in order to ensure effective participation in the related negotiations. UNCTAD undertook advisory services, field missions and capacity-building activities, including technical consultations with negotiators from Azerbaijan on accession issues (Geneva, Switzerland, 21 and 22 July 2017) and an advisory mission to Turkmenistan on accession issues (Ashgabat, 17–20 April 2016). Advisory services were provided on a more continuous basis for Bhutan on such issues as the review of trade-related domestic legislation to ensure compatibility with World Trade Organization agreements. Finally, support was provided to landlocked developing countries at various stages of the accession process, including Bhutan, Ethiopia, the Sudan and Turkmenistan, as well as landlocked developing countries that have recently acceded to the World Trade Organization, such as Nepal.

24. As part of the Enhanced Integrated Framework, UNCTAD assists the least developed countries, including several landlocked developing countries, in updating their diagnostic trade integration studies, which serve as tools to identify policy limitations and gaps, and in developing action matrices to address domestic bottlenecks to trade. These studies identify constraints to the integration of the least developed countries into the multilateral trading system and the mainstreaming of trade issues into national development strategies.
UNCTAD updated the diagnostic trade integration study for the Niger in 2014 and the studies for Burkina Faso and Ethiopia in 2016. The focus of the update of the study for Burkina Faso was on strengthening domestic ownership capacity in trade policy formulation and implementation, as part of the national medium-term plan. The update also assisted the Government in integrating trade into the national development plan. The focus of the update of the study for Ethiopia was on improving the Addis Ababa–Djibouti rail corridor to facilitate the flow of goods and services via the port of Djibouti. Djibouti and Ethiopia need to build their respective productive and supply capacities and to revamp trade institutions and customs operations to facilitate the flow of goods and services.

B. Trade facilitation

25. For many landlocked developing countries, the geographical disadvantage of remoteness from the sea is compounded by inefficient trade logistics and customs clearance processes. The Automated System for Customs Data (ASYCUDA) is an integrated customs management system for international trade and transport operations in a modern automated environment. Advanced software applications are designed and developed in order for customs administrations and the trade community to comply with international standards when fulfilling import, export and transit-related procedures. ASYCUDA is currently installed in 99 countries and territories worldwide and helps to significantly reduce customs clearance costs and time. By streamlining procedures and enhancing transparency,

ASYCUDA also helps to improve security and fight corruption. At present, 23 landlocked developing countries are using ASYCUDA in their customs administrations.[7]

26. Freight forwarders are service providers who facilitate trade by helping individuals and companies send their goods to international markets and are thus instrumental in the growth of a country's economy. In 2015, UNCTAD, in collaboration with the International Federation of Freight Forwarders Associations, held a train-the-trainer event in Zimbabwe to help build the capacity of the Shipping and Forwarding Agents' Association of Zimbabwe to develop a sustainable training programme. The course helped the Association to develop its training programme, which led to enrolment by 99 students at four national training centres.

IV. Priority 4: Regional integration and cooperation

27. The Vienna Programme of Action recognizes the importance of regional integration in trade, trade facilitation, investment, research and development, industrial development and connectivity, in order to foster structural transformation and collectively link regions to global markets.

28. Since the launch of the Continental Free Trade Area negotiations in June 2015, UNCTAD, in collaboration with the African Union Commission, has supported the negotiation process, which involves the Commission and the 55 members of the African Union, including 15 landlocked developing countries.[8] UNCTAD has provided assistance to the Commission, regional economic communities and individual countries in all areas of the negotiations. UNCTAD intensified its support in 2016 and 2017 by assisting in the preparation of the draft agreement for the Continental Free Trade Area, through the provision of technical notes, policy analysis and advisory support, in particular on options for negotiating modalities for trade in goods and services during the negotiation and advisory processes, which culminated in the adoption of negotiating modalities. UNCTAD contributed substantially to the conclusion of the first phase of negotiations in December 2017, when trade ministers endorsed the agreement on the Continental Free Trade Area, by helping all involved parties, including landlocked developing countries, to enhance their understanding of technical issues arising from the negotiations and to strengthen trade negotiation capacities. UNCTAD stands ready to continue its support to the African Union Commission and members of the African Union, including landlocked developing countries, during the second phase of negotiations.

29. UNCTAD has also supported member States of the Tripartite Free Trade Area, which includes landlocked developing countries in the East African Community and the Common Market for Eastern and Southern Africa. In particular, UNCTAD advised States during the second phase of negotiations on competition, intellectual property rights, investment and trade in services. UNCTAD prepared papers that proposed options for engagement in the tripartite context in light of progress in the Continental Free Trade Area negotiations and other development considerations. Such support activities enhanced the negotiation capacities of the involved parties and contributed positively to the Tripartite Free Trade Area negotiation process.

30. In 2014–2017, UNCTAD initiated and completed a project on regional value chains in leather products in Africa, funded by the African Export-Import Bank and the Commonwealth Secretariat, which included a study entitled "Identifying and promoting regional value chains in leather and leather products in Africa". The study identified at a disaggregated level the inputs and intermediate products that may be provided by different countries in Africa, in particular the least developed countries and some landlocked developing countries, in potential regional value chains, in order to export final leather products from Africa. Low capacity in design was identified as one of the key constraints to

[7] Afghanistan, Burundi, Botswana, Burkina Faso, the Central African Republic, Chad, Ethiopia, Kazakhstan, the Lao People's Democratic Republic, Lesotho, Malawi, Mali, Nepal, the Niger, the Plurinational State of Bolivia, the Republic of Moldova, Rwanda, Swaziland, the former Yugoslav Republic of Macedonia, Turkmenistan, Uganda, Zambia and Zimbabwe.

[8] Botswana, Burkina Faso, Burundi, the Central African Republic, Chad, Ethiopia, Lesotho, Malawi, Mali, the Niger, Rwanda, Swaziland, Uganda, Zambia and Zimbabwe.

adding value to the export of leather products. Based on this lesson learned and the recommendations of the study, the Leather and Leather Products Institute of the Common Market for Eastern and Southern Africa launched a regional design studio, with assistance from the Commonwealth Secretariat, to provide artisanal skills and design training for the production of high-end leather goods.

31. UNCTAD is implementing a Development Account project on development policies for sustainable economic growth in Southern Africa, aimed at supporting the regional industrialization agenda and facilitating policy identification and coordination in favour of the development of regional value chains. Studies have been prepared that examine the productive and export structures of five countries, namely Mauritius, Mozambique, South Africa, the United Republic of Tanzania and Zambia, focusing on promising regional value chains in mining machinery and agroprocessing and on a key enabler of development, namely energy. These issues were discussed during a two-day regional workshop jointly organized with the Department of Trade and Industry of South Africa, held in Pretoria in March 2017. A second two-day regional workshop, co-organized with the Ministry of Industry, Trade and Investment of the United Republic of Tanzania, in cooperation with the United Nations Industrial Development Organization, was held in Dar es Salaam in December 2017.
An outcome document was adopted by the participating countries that endorsed a series of specific policy measures. The project is entering its second phase, which will feature a series of capacity-building workshops in economies of the region, the first of which will be held in Mozambique in May 2018.

32. In March 2018, UNCTAD launched a new two-year project on integrating landlocked commodity-dependent developing countries into regional and global value chains, funded by the Sustainable Development Goals Fund. The project will be implemented in collaboration with the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States; three regional commissions, namely the United Nations Economic Commission for Africa, the United Nations Economic Commission for Europe and the United Nations Economic and Social Commission for Asia and the Pacific; United Nations specialized agencies and programmes, namely the United Nations Development Programme and the United Nations Industrial Development Organization; and regional organizations, namely the Shanghai Cooperation Organization. The overall objective of the project is to support integrated value chain development in four commodity-dependent landlocked developing countries, namely Ethiopia, the Lao People's Democratic Republic, Mongolia and Uzbekistan, by enhancing their capacities in development policies and strategies, to promote better integration into regional and global value chains and to create development linkages at the national, interregional and intercontinental levels. The project aims to improve the statistical and analytical capacity of the beneficiary countries in effective policy formulation, to promote value chain integration and enhance development linkages; and to improve the capacity of the private sector in the beneficiary countries to assess market prospects, identify market opportunities and overcome market barriers, to better integrate into value chains.

V. Priority 5: Structural economic transformation

33. The Vienna Programme of Action notes that in addition to their geographical disadvantages, many landlocked developing countries are highly dependent on a small number of commodities for export, making them vulnerable to external shocks and locking them into an unequal growth pattern that does not create significant employment or reduce poverty. Overcoming the problem of commodity dependence and achieving more inclusive and sustainable growth requires that landlocked developing countries undertake measures to promote structural transformation, diversification and increased value addition. One of the essential prerequisites for achieving structural transformation is to build viable and competitive productive capacities. Against this background, UNCTAD has engaged in several activities to support the building of productive capacities in landlocked developing countries.

34. UNCTAD is engaged in analytical research to develop quantifiable indicators and related variables to measure economy-wide productive capacities, with a view to providing an operational methodology and policy guidelines on how to mainstream productive

capacities into national development polices and strategies in landlocked developing countries. An index will be instrumental in allowing landlocked developing countries to assess their current positions in building productive capacities based on specific benchmarks and indicators and to provide evidence-based guidance for future development policies.

The project combines an analytical study collating data on more than 100 indicators across eight categories, namely transport, energy, information and communications technology, human capital, natural capital, institutions, investment and structural change, with country case studies in three landlocked developing countries, namely Botswana, the Lao People's Democratic Republic and Rwanda. The project builds on an earlier productive capacities index for the least developed countries presented in the analytical study *Benchmarking Productive Capacities in Least Developed Countries*, published in 2016. The results of the study were subsequently validated and further developed during a national workshop held in Botswana on 7 and 8 February 2017, at which 36 national policymakers and statistical officers, including 20 women, were trained in the interpretation, validation and use of the productive capacities index in the formulation of domestic development policies and strategies. The Productive Capacities Index for landlocked developing countries will be finalized in 2018, and two further national training and capacity-building workshops at the policy and expert levels will be organized in the Lao People's Democratic Republic and Rwanda to share and validate the findings, conclusions and specific outcomes of the project. Preliminary results show that the overall level of productive capacities in landlocked developing countries is low in comparison with other country groups, in particular with regard to indicators on structural transformation, institutions and energy, while indicators related to natural capital and investment show higher levels. Finally, the data suggest that progress in building productive capacities in landlocked developing countries has slowed since 2011.

35. Beyond broad conceptual work on productive capacity indicators, UNCTAD also assists a number of landlocked developing countries in identifying options for economic diversification and overcoming related challenges. In 2015, UNCTAD published the analytical study *Facilitating the Participation of Landlocked Developing Countries in Commodity Value Chains*, which recognized that the geographical disadvantages of landlocked developing countries often dictated their export structures and rendered export diversification into manufactures more challenging. Against this background, the study provided insights on the measures that landlocked developing countries could take to facilitate inclusion in global value chains in commodities and to capture higher value-added segments within such chains. The study provided best practices and lessons learned on policy measures in the areas of trade facilitation, infrastructure, trade and investment policies, productive capacities and institutions.

36. Many countries in Africa and Asia face challenges in their commodity diversification efforts, partly because energy, in terms of both access and productive use, remains one of the key obstacles undermining such efforts, especially diversification towards manufacturing. Many landlocked developing countries have also been unable to take advantage of opportunities presented by regional and global commodity value chains due to deficient energy infrastructures, a lack of access to modern energy sources, high transmission and distribution losses and the lack of abilities to use energy in productive sectors. However, even in energy producing and exporting countries, economic diversification often remains a challenge. UNCTAD provides technical assistance to four energy-exporting landlocked developing countries in Asia, namely Bhutan, Kazakhstan, Mongolia and Turkmenistan.

The project aims to examine the role of energy in economic diversification efforts, identify successful country experiences and best practices and recommend policies and strategies for using energy to build productive capacities and accelerate structural transformation. The beneficiary countries export mainly fossil fuels and, in Bhutan, hydroelectricity, and face challenges related to diversification, as seen in the degree and extent of their dependency on a few commodities for export. The project therefore aims to assist in closely examining the role of energy in commodity diversification. Preliminary work by UNCTAD indicates that for these countries, the relationship between the International Energy Agency energy development index and the productive capacities index is weak and, in most cases,

an inverse one. Such a relationship signifies that energy-exporting countries are not fully harnessing their potential to build productive bases and accelerate structural transformation. Preliminary results also indicate that Kazakhstan shows good potential for diversification in agribusiness, manufacturing and tourism, and that Mongolia shows potential for greater value addition in meat and dairy products, as well as in wool and leather, fibre processing and tourism.

37. Domestic fishery industries are important in many countries not only as a source of export earnings, as fish from such industries is a growing export commodity, but also in ensuring the well-being of rural communities and as a key contributor to food security. UNCTAD is implementing a Development Account project entitled "Building the capacities of selected least developed countries to upgrade and diversify their fish exports". As part of the project, UNCTAD held a workshop in Uganda at which stakeholders from the Government and the private sector, as well as academia and civil society, discussed the need for more proactive policies to upgrade and diversify fishery exports. The fishery industry is the largest foreign exchange earner for Uganda after coffee and contributes to the livelihoods of almost 1.5 million people. UNCTAD, with the input of key stakeholders, recommended sector-specific policies and strategies stemming from the workshop for implementation by both the Government and international development partners. The project also enabled experts from Uganda and other beneficiary countries to travel to China to undertake a training programme at the Freshwater Fisheries Research Centre at the Chinese Academy of Fishery Sciences. With support from China, participants learned about complying with the constantly shifting food quality and safety standards for fish exports from the least developed countries, including wild-caught fish and fish from aquaculture. In April 2017, UNCTAD work on fisheries culminated in an interregional workshop in Mauritius, which participants from Uganda also attended.

38. Achieving structural transformation and developing higher value-added sectors often requires mobilizing significant levels of investment. During the reporting period, 28 of the 32 landlocked developing countries benefited from UNCTAD assistance in the area of investment and enterprise. Activities aimed to build the competitiveness of these countries and enhance their attractiveness as destinations for foreign investment and the establishment of businesses.

39. Several landlocked developing countries have been beneficiaries of the investment policy review programme since its inception in 1999. To date, investment policy reviews have been conducted for 15, or almost half, of the 32 landlocked developing countries.[9] Approximately five years after the completion of an investment policy review, UNCTAD prepares a report that assesses progress in implementing the review recommendations. A number of landlocked developing countries have benefited from this follow-up process, as well as from technical assistance to help implement review recommendations. In 2017, UNCTAD published the *Investment Policy Review: South-East Europe*, which included reviews for two landlocked developing countries, namely the Republic of Moldova and the former Yugoslav Republic of Macedonia. In 2017–2018, UNCTAD launched preparations for an investment policy review for Chad. UNCTAD also provided technical assistance to Botswana in the implementation of review recommendations. The investment policy review programme continued to demonstrate its relevance, quality and impact, as the implementation reports prepared by UNCTAD for landlocked developing countries showed a good to strong implementation record, increased interest by existing investors and increased capacity to market investment opportunities. In most instances, following the review of their investment policies by UNCTAD, beneficiary countries recorded marked increases in foreign direct investment inflows.

40. In the area of international investment agreements, in 2017, UNCTAD assisted a number of regional groups, including landlocked developing countries, in reviewing their model international investment agreements, with a view to enhancing the development dimension and coherence of the treaties. UNCTAD reviewed the model agreements of

[9] In Africa for Botswana, Burkina Faso, Burundi, Ethiopia, Lesotho, Rwanda, Uganda and Zambia; in Asia for Kyrgyzstan, Mongolia, Nepal, Tajikistan and Uzbekistan; and in Europe for the Republic of Moldova and the former Yugoslav Republic of Macedonia.

Botswana, Burkina Faso and Mongolia. During the fifth session of the Multi-year Expert Meeting on Investment, Innovation and Entrepreneurship for Productive Capacity-building and Sustainable Development, UNCTAD co-organized with the United Nations Economic Commission for Africa a side event on the pan-African investment code and the investment chapter of the agreement on the Continental Free Trade Area, which benefited all landlocked developing countries participating in the negotiations for these agreements. In addition, in 2017, UNCTAD organized a training workshop in Casablanca, Morocco, in cooperation with the Islamic Development Bank and authorities from Morocco, for members of the Islamic Development Bank. Such workshops aim to deepen understanding of international investment agreements by training officials to identify and analyse key issues and areas of interest related to the sustainable development dimension of such agreements and by assisting officials in finalizing such agreements. Participants from seven landlocked developing countries, namely Burkina Faso, Chad, Mali, the Niger, Tajikistan, Uganda and Uzbekistan, attended the workshop.

41. In October 2017, UNCTAD held a Regional Conference for Economies in Transition on International Investment Policies and The Way Forward in Baku. The conference gave a platform to high-level policymakers from 12 countries with economies in transition to discuss international investment policy and treaty making; international investment issues and the reform of the international investment agreements regime; and experiences in the management of investment disputes. Around 60 participants from 12 countries attended the conference.

42. In May 2017, UNCTAD gave a presentation to senior officials of the Tripartite Ministerial Committee of the Common Market for Eastern and Southern Africa, the East African Community and the Southern African Development Community, building on a policy guidance document provided by UNCTAD to assist in the negotiations for an investment chapter in the agreement of the Tripartite Free Trade Area, which includes 12 landlocked developing countries as members.

43. Nearly all of the landlocked developing countries have a national investment promotion agency that promotes investments, and often also have subnational institutions, yet the capacity level of these agencies to address investment-related issues specific to landlocked developing countries continues to be limited. There are, however, best practice exceptions, such as Ethiopia and Rwanda. UNCTAD seeks to share best practices from around the world, including from landlocked developing countries, in a way that can be replicated by other investment promotion agencies in a scalable and sustainable manner. To support the exchange of best practices, each year UNCTAD rewards a number of investment promotion agencies for achievements in promoting investment for sustainable development, and shares their experiences with other agencies. In 2017, the Ethiopian Investment Commission was among the winners of the award for promoting investment in the Sustainable Development Goals, in recognition of the work of the Commission with regard to spurring private investment in Ethiopia that will boost economic activity and hasten the achievement of the Sustainable Development Goals.

44. From May 2017 to January 2018, senior investment promotion officials from landlocked developing countries participated in training sessions and the exchange of best practices in investment promotion at events organized by UNCTAD, including a regional seminar on the preparation and promotion of bankable Sustainable Development Goals-related projects and the creation of partnerships with outward investment agencies and institutions, held in Johannesburg, South Africa (May 2017). UNCTAD contributed to the Belt and Road Forum for International Cooperation organized by the Government of China in Beijing, at which all countries involved in the One Belt, One Road initiative participated, including 12 landlocked developing countries (May 2017). Investment promotion officials from landlocked developing countries participated in a training course on foreign direct investment essentials, held by the World Association of Investment Promotion Agencies in Istanbul, Turkey (January 2018). As part of a long-standing partnership, UNCTAD contributed to the course with training modules on national and international investment policies.

45. UNCTAD online investment guides raise awareness in the international investment community of investment opportunities and conditions in beneficiary countries. The guides are developed by Governments under the guidance of UNCTAD, and include information on typical personnel, rent, utility and factor costs faced by investors, in order to enable investors to carry out preliminary business planning, as well as key contacts in the Government and feedback and tips from investors already in the country. Investment guides have been or are being developed for the following landlocked developing countries: Burundi, Malawi, Rwanda, Uganda and Zambia. The guides for Malawi and Zambia are being developed in partnership with the United Nations Economic Commission for Africa.

46. The UNCTAD Business Facilitation eRegulations programme helps countries to simplify and automate rules and procedures related to investment and entrepreneurship. The eRegulations system is operational in seven landlocked developing countries, namely Bhutan, Burkina Faso, Ethiopia, Mali, the Niger, Rwanda and the former Yugoslav Republic of Macedonia. The system contributes to increased transparency and greater institutional capacity, thereby facilitating business and making landlocked developing countries more attractive to foreign investors. In 2017, the programme expanded to include the development of trade portals, a new facilitation tool focused on trade procedures. Trade portals have been or are being developed for eight countries, including three landlocked developing countries, namely Mali, Rwanda and Uganda.

47. The Sustainable Stock Exchanges initiative, launched in 2009, seeks to leverage the catalysing potential of stock exchanges to improve corporate reporting practices and transparency among listed companies in the area of environmental, social and corporate governance issues, thereby improving performance in this area in the long term. Membership in the initiative has grown to 68 exchanges. The participation of exchanges from landlocked developing countries has gained ground, with four exchanges joining the initiative in the past two years, namely the Botswana Stock Exchange, the Kazakhstan Stock Exchange, the Rwanda Stock Exchange and the Zimbabwe Stock Exchange. As members of the initiative, in 2017, the exchanges benefited from engagement on green finance and gender equality through webinars and the dissemination of Sustainable Stock Exchanges guidance documents on these two topics. In addition, Botswana received technical assistance in developing guidance on reporting environmental, social and governance information for companies listed on these exchanges, which had committed to the Sustainable Stock Exchanges campaign to close the environmental, social and governance information gap. Partnerships were formed with individual member exchanges on gender equality awareness raising, including with the Rwanda Stock Exchange. UNCTAD engaged with Botswana on best practices in green finance through the advisory group on green finance of the Sustainable Stock Exchanges initiative, in which Botswana is represented.

48. UNCTAD capacity-building activities in landlocked developing countries include activities related to the issue of intellectual property for development. In April 2017, UNCTAD provided training sessions that benefited a number of landlocked developing countries, including a workshop on technology transfer and public health held in Dakar, which was prepared in cooperation with the Joint United Nations Programme on HIV/AIDS, the United Nations Development Programme and Yolse. Participating countries included Burkina Faso, Mali and the Niger. In November 2017, a training programme for research directors on innovation, intellectual property and technology transfer, with a focus on the agricultural sector, was organized in Bishoftu, Ethiopia. The training was designed to build the capacity and understanding of researchers with regard to a balanced and integrated approach to innovation, intellectual property and technology transfer in a manner that assisted them in building a sustainable relationship with the private sector. In addition, UNCTAD provided substantive comments on the draft national intellectual property strategy of Uganda. The comments were acknowledged as providing a strong basis for national discussions and were incorporated in the draft strategy. In March 2018, UNCTAD, in collaboration with the Ministry of Industry of Ethiopia and the World Health Organization, facilitated a high-level discussion on patent law reform in Ethiopia, to support the local production of innovative pharmaceutical products.

49. UNCTAD also continued to provide assistance to the five established Empretec centres in landlocked developing countries, through advisory services, policy workshops

and seminars based on the Entrepreneurship Policy Framework, as well as training for entrepreneurs and small and medium-sized enterprises. In the first quarter of 2018, UNCTAD, in collaboration with the United Nations Industrial Development Organization, assisted the Government of Ethiopia in developing a national entrepreneurship strategy. UNCTAD also strengthened the capacity of Empretec centres in several countries, including Zambia. Train-the-trainer certification and support to regional networks and initiatives were extended, benefiting the following landlocked developing countries: Botswana, Ethiopia, Lesotho, Malawi, Paraguay, Swaziland and Zambia.

50. UNCTAD continued to work with selected landlocked developing countries to identify business linkage opportunities, in order to connect local entrepreneurs with large firms, notably in the agricultural and construction sectors. Linkage-building activities, conducted in collaboration with United Nations agencies under a joint framework, allowed UNCTAD to assist more than 200 entrepreneurs in Zambia.

51. Effective competition policy plays an important role in supporting the business environment, promoting market efficiency and innovation and protecting consumers. As part of its work in this field, UNCTAD assisted three landlocked developing countries in improving their legal and regulatory capacities. For example, a project on strengthening competition and consumer protection enforcement capacities in Ethiopia aimed to improve the legal and institutional framework and lay the foundations for more effective enforcement of competition policy in Ethiopia. The project allowed staff of the Trade Competition and Consumers' Protection Authority to receive substantive training in merger analysis, unfair commercial practices, consumer protection, investigative techniques and competition law enforcement. It also facilitated the exchange of experiences through the participation of Authority staff in study tours to other competition authorities and to conferences on competition policy.

52. Within the framework of a programme to support trade and economic integration, the European Union and the Central African Economic and Monetary Community requested UNCTAD to assist eight countries in Middle Africa in strengthening their competition and consumer protection laws and policies. As part of this project, the Central African Republic and Chad obtained relevant training. A national advocacy seminar on competition and consumer protection was held in Bangui from 7 to 9 March 2018. A national seminar on competition and consumer protection was held in N'Djamena on 5 and 6 February 2018, aimed at highlighting the role of competition and consumer protection policies in the growth and development of the economy of Chad, in light of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices and the United Nations guidelines for consumer protection; presenting the main components of these policies; examining the different options envisaged for the effective implementation of these policies in Chad; and reflecting on the involvement of the private sector, civil society and other relevant stakeholders in the region in the administration of competition and consumer protection laws and policies.

VI. Midterm review on the implementation of the Vienna Programme of Action

53. On 20 December 2017, the General Assembly adopted resolution 72/232 on the follow-up to the second United Nations Conference on Landlocked Developing Countries. The General Assembly decided to convene, as called for in paragraph 78 of the Vienna Programme of Action, a comprehensive high-level midterm review on the implementation of the Vienna Programme of Action for the Decade 2014–2024, to be held no later than December 2019; that all relevant United Nations system organizations, including UNCTAD, within their respective mandates and within existing resources, shall be invited to provide support to the review process; and that the high-level midterm review shall be preceded by regional preparatory meetings, as appropriate and within existing resources.[10] The General Assembly also decided that the comprehensive high-level midterm review shall review progress made by the landlocked developing countries, transit countries and

[10] A/RES/72/232, paragraph 47.

development partners in the implementation of the Vienna Programme of Action and shall be a forum to share best practices and lessons learned, identify obstacles and constraints encountered and actions and initiatives needed to overcome them, as well as new challenges and emerging issues, in order to further accelerate the implementation of the Vienna Programme of Action.[11]

54. UNCTAD stands ready to contribute to the midterm review on the implementation of the Vienna Programme of Action in areas within its mandate and competence. The midterm review will also be an appropriate occasion to redraw the attention of the international community to the development challenges faced by landlocked developing countries, particularly in the context of achievement of the Sustainable Development Goals and the pledge of the 2030 Agenda for Sustainable Development that no one will be left behind, in order to generate the momentum needed for landlocked developing countries to achieve the goals and targets of the Vienna Programme of Action by the target date of 2024.

VII. Lessons learned and policy recommendations

55. The sharp slowdown in growth in landlocked developing countries and the decline in their share of global exports since the adoption of the Vienna Programme of Action in 2014 demonstrates the continuing challenges faced by these countries as a result of their geographical remoteness and commodity dependence. It also puts into question their ability to achieve the goals of the Programme of Action by the target date, as well as to progress towards achieving the Sustainable Development Goals.

56. Against this background, strengthened efforts are needed to support the implementation of the Programme of Action, and to assist landlocked developing countries in overcoming the geographical and structural obstacles to their development. The forthcoming midterm review on the implementation of the Programme of Action should aim to identify measures to reverse the disconcerting deterioration in growth and exports, including by galvanizing additional support for trade facilitation and transit cooperation and for building productive capacities for structural transformation. An enhanced partnership between landlocked developing countries, transit countries and development partners should go beyond traditional development cooperation and include focused measures to support private sector development and the building of productive capacities.

57. UNCTAD support in the implementation of the Programme of Action across its different priorities has received positive evaluations and feedback from beneficiaries, as well as from independent evaluators. UNCTAD has experienced steady growth in requests for technical assistance and capacity-building support for landlocked developing countries, including in the areas of trade facilitation and the building of productive capacities. UNCTAD stands ready to continue to expand its support within its capabilities and resources. However, for UNCTAD to scale up its assistance in a sustainable manner, additional extrabudgetary financial resources will be required.

Policy recommendations

58. The Trade and Development Board may wish to consider requesting landlocked developing countries, transit countries and development partners to implement the priority actions in the Vienna Programme of Action.

59. The members of the Trade and Development Board may wish to consider actively supporting the midterm review process on the implementation of the Vienna Programme of Action, to review progress to date, identify required priority measures and galvanize all stakeholders to strengthen efforts in the years ahead.

60. The Trade and Development Board may wish to consider encouraging donors and other countries in a position to do so to support the work of UNCTAD related to landlocked developing countries and the implementation of the Vienna Programme of Action.

[11] Ibid, paragraph 48.

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Activities carried out in the implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020

Note by the UNCTAD secretariat

Executive summary

This report is prepared pursuant to paragraphs 153 and 156 of the Programmed of Action for the Least Developed Countries for the Decade 2011–2020 (Istanbul Programme of Action; A/CONF.219/7). The report provides a description of activities carried out by UNCTAD, by pillar of work, between the second quarter of 2017 and the first quarter of 2018, as well as lessons learned and policy recommendations for the way forward.

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Introduction

1. The Istanbul Programme of Action was adopted by the Fourth United Nations Conference on the Least Developed Countries in May 2011. The Programme aims to address the multiple socioeconomic development challenges facing the poorest and weakest segment of the international community by identifying specific goals and targets to be achieved by 2020, as well as a number of priority areas for action by the least developed countries and their development partners. In 2016, the international community took stock of progress towards achieving the goals and targets at the midterm review of the Programme in Antalya, Turkey, and adopted a political declaration recommitting itself to the goals of the Programme and calling for its accelerated implementation.

2. Since the adoption of the Programme, many least developed countries have made significant progress towards several of its goals and targets. However, their overall performance as a group suggests that most of the targets of the Programme are not likely to be met, unless there is a step change in efforts to support implementation.

3. In 2016, the least developed countries as a group experienced its lowest growth in real gross domestic product (GDP) since 2000 – 3.8 per cent. While growth is projected to improve in the coming years, it will likely continue to fall short of the Programme target of 7 per cent per annum. The slowdown is due to the anaemic recovery of developed countries, the slowdown in other developing countries, as well as the strategic reorientation towards domestic demand in the Chinese economy, which has implications for the demand for commodities. Political strife and conflict in a number of least developed countries further undermine prospects for growth.

4. Similarly, despite the Programme goal of doubling the share of least developed countries in global exports of goods and services, the group saw a decline in its share from 1.09 per cent in 2013 to 0.92 per cent in 2016. At the same time, efforts to achieve diversification and structural transformation are proceeding at a sluggish pace: While the average share of commodities in least developed countries' exports decreased slightly, from 65.5 per cent in 2015 to 63 per cent in 2016, the number of commodity-dependent[1] least developed countries increased from 38 to 39. Further, the decline in the commodities share in least developed country exports is largely a reflection of the decrease in commodities exports, rather than a sign of sustainable structural transformation.

5. Despite the slowdown in growth, several least developed countries continued to make progress towards graduation. In 2017, Equatorial Guinea graduated from the group, bringing the number of graduated countries to five. Two more countries (Vanuatu in 2020 and Angola in 2021) are expected to graduate if they maintain their current level of socioeconomic performance. During the 2018 triennial review of the least developed country category, the Committee for Development Policy decided to recommend Bhutan, Kiribati, Sao Tome and Principe, and Solomon Islands for graduation. Bangladesh, the Lao People's Democratic Republic and Myanmar also met the graduation criteria for the first time. However, they would need to meet the criteria a second time at the next triennial review in 2021 to be considered for graduation.

6. UNCTAD has provided targeted support to the least developed countries since the creation of the category by the United Nations General Assembly in 1971 and continues to assist these countries in their efforts to achieve the goals and targets of the Programme. This report provides an overview of the activities of UNCTAD, by pillar of work, in support of the Programme between April 2017 and March 2018.

[1] A country is defined as commodity dependent if commodities account for more than 60 per cent of its merchandise exports. If the threshold for commodity dependence is measured at 50 per cent of merchandise exports, the number of commodity-dependent least developed countries rises to 41.

I. Research and analysis

7. To assist the least developed countries in tackling their unique development challenges, UNCTAD has continued its work in research and analysis. *The Least Developed Countries Report 2017: Transformational Energy Access*, highlights the role of access to energy in the process of structural transformation in the least developed countries and stresses the importance of ensuring access to energy not only for domestic consumption needs, but also for productive processes. Further, the report provides a series of recommendations for countries to consider when formulating their national energy policies.

8. UNCTAD closely monitors least developed countries' progress on key development indicators and on their achievement of the Sustainable Development Goals. In February 2018, UNCTAD published its latest update, entitled *"Selected Sustainable Development Trends in the Least Developed Countries 2018"*. The publication shows that economic development in these countries is stalling against a background of weak global recovery, risking a widening inequality compared with other developing countries, as well as failure to achieve the Goals.

9. The *Economic Development in Africa Report 2017: Tourism for Transformative and Inclusive Growth* highlights the potential role that the tourism sector can play in supporting Africa's development, including that of the 32 African least developed countries. The report notes that the number of tourist arrivals in Africa has more than doubled in the past 20 years. It states that tourism accounts for a significant share of GDP in many African countries, with the sector contributing to 1 out of 14 jobs in Africa. The report outlines measures that can be taken by African countries to harness the dynamism of the sector for structural transformation and inclusive growth.

10. As in previous years, the *World Investment Report 2017: Investment and the Digital Economy* provides a comprehensive analysis of foreign direct investment (FDI) trends in the least developed countries. The report shows that flows to these countries fell in 2016 by 12 per cent compared with the previous year, reaching $37.9 billion. However, the overall decline hides a wide disparity between countries. In Africa, for example, flows to Zambia fell by 70 per cent, while flows to Ethiopia increased by 46 per cent. In Asia, flows to Myanmar and the Lao People's Democratic Republic declined by 22 per cent and 20 per cent, respectively, while flows to Cambodia increased by 13 per cent. The largest source of foreign investment destined for the least developed countries is China, whose multinational enterprises have been actively expanding into these countries. At the end of 2015, Chinese FDI stock in these countries was almost three times more than the next-largest investor (France). The declining trend in FDI will have significant implications for the ability of the least developed countries to meet the investment ratio of 25 per cent of GDP originally agreed in the Brussels Programme of Action.

II. Consensus-building

11. During the high-level segment of the sixty-fourth session of the Trade and Development Board, held in Geneva from 11 to 13 September 2017, UNCTAD organized a special panel discussion on lessons learned from building productive capacities in the least developed countries and other vulnerable economies. The panel included the Vice-President of Ghana, the Deputy Chair of the African Union Commission; the United Nations High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States; the Chair of the Export–Import Bank of China and the Vice-President and Chief Economist of the African Development Bank. The panellists highlighted different but mutually supportive policies and measures to accelerate progress in building productive capacity.

12. Beyond the regular and executive sessions of the Trade and Development Board devoted to the least developed countries, UNCTAD – at the request of member States – organized the Expert Meeting on the Ways and Means of Improving the Implementation of Priority Areas Agreed in the Istanbul Programme of Action on 6 and 7 November 2017. The meeting reviewed the progress achieved in the implementation of the Programme's priority goals, with a particular focus on building productive capacities and doubling the

share of least developed countries in global exports. It also discussed measures to strengthen productive capacities in these countries and mobilize the necessary financial resources, and explored ways and means to double the share of least developed countries in global exports, while enhancing their benefits from global trade.

13. Further, a session of the Multi-year Expert Meeting on Enhancing the Enabling Economic Environment at All Levels in Support of Inclusive and Sustainable Development, and the Promotion of Economic Integration and Cooperation, held by UNCTAD in October 2017, was devoted to development challenges and opportunities faced by Southern African economies.

14. As every year, UNCTAD also provided a substantive contribution to the report of the United Nations Secretary-General to the General Assembly on the implementation of the Programme. UNCTAD input provides an analysis of the latest available data on progress achieved by the least developed countries on key indicators and goals of the Programme within its mandate.

15. In addition, UNCTAD is the custodian of the indicator of Sustainable Development Goal 17.11 that calls for doubling the least developed countries' share of global exports by 2020.[3] In this function, UNCTAD regularly compiles statistics on the share of their exports in global exports and delivers the related data and a related narrative as inputs for the *Sustainable Development Goals Report*.

16. UNCTAD continues to support the deliberations of the Committee for Development Policy. During the reporting period, UNCTAD prepared vulnerability profiles for six least developed countries: Bhutan, Kiribati, Nepal, Sao Tome and Principe, Solomon Islands and Timor-Leste.

III. Technical cooperation

A. Productive capacities

17. In its listing of priority areas for action, the Istanbul Programme of Action gives primacy of place to the building of productive capacities, which is a crucial condition for economic diversification and sustainable economic growth. Since UNCTAD played a key role in developing the concept of productive capacities in 2006, UNCTAD has continued work to fine-tune the concept, with the goal of operationalizing it for the least developed countries and other developing countries. In this context, UNCTAD continued its work to develop measurable indices of productive capacities. To complement the analytical work on the productive capacities index, UNCTAD launched two country case studies on productive capacities in the Lao People's Democratic Republic and Rwanda, which will be used to test the indicators in national workshops.

18. Further, UNCTAD convened a one-day brainstorming meeting in Geneva, Switzerland, with representatives of other United Nations system entities or relevant bodies (Department of Economic and Social Affairs, International Air Transport Association, International Trade Centre, United Nations Development Programme and United Nations Industrial Development Organization (UNIDO)), regional organizations (Commonwealth Secretariat) and academic institutions (Botswana Institute for Development Policy Analysis; Institute for Development Studies, University of Nairobi; and University of Canberra) working on productive capacities. The meeting served to sharpen the understanding of the concept and provided an impetus for further collaborative work to develop measurable indicators.

[3] The same target is specified in the Istanbul Programme of Action, para. 65 (a).

19. Effectively using measurable indices requires statistical capacities. UNCTAD supports individual least developed countries in strengthening their national statistical capacity to design programmes and policies for sustainable development. In the Istanbul Programme of Action, Member States also saw building statistical capacities as a key contribution to good governance at all levels.

20. Since 2013, UNCTAD has been collaborating with the statistics department of the West African Economic and Monetary Union to set up statistical tools for measurement and analysis of trade in services. The targets of the project are to develop harmonized methods for data collection, data processing and dissemination; provide support in the application of those methods; and build a joint statistical database.

21. UNCTAD, the United Nations Statistics Division and the World Trade Organization (WTO) have developed an online training course to assist compilers of statistics on international trade in services in ensuring they adhere to the new international standards laid down in the 2010 Manual on Statistics of International Trade in Services. Between September and October 2017, more than 80 participants from 40 countries began taking the online course.

22. Between 26 June and 6 July 2017, UNCTAD held seminars and workshops in the United Republic of Tanzania aimed at providing support to government bodies in monitoring and evaluating progress on the Sustainable Development Goals. The National Bureau of Statistics, the Ministry of Finance and Planning, the Office of the Chief Government Statistician and the Zanzibar [United Republic of Tanzania] Planning Commission benefited from these events. In technical workshops, participants received dedicated training on constructing indicators on the Goals and national trade, techniques for ex ante impact assessment and visualization of statistical findings.

23. In 2017, UNCTAD also continued its operational work to build the capacities of selected least developed countries to upgrade and diversify their fisheries exports, a project designed to provide significant opportunities for them to generate growth and employment, and reduce poverty and inequality. While many of these countries are among the largest producers of fishery products in the world, their share of global exports remains paltry.

24. As part of the project, UNCTAD organized two regional workshops for policymakers and fisheries practitioners in Mozambique and Myanmar, and one interregional workshop in Mauritius. As a result, 136 fisheries experts, including 68 women (half of the experts) from 8 countries[1] gained skills and training in upgrading the fisheries sector, and exchanged experiences and lessons learned. The interregional workshop also allowed participants from these countries to gain insights from the successful experience of Mauritius in expanding its fisheries sector. A particular focus of the training was placed on building the capacities to meet safety and sustainability standards imposed on fisheries imports in major import markets.

25. UNCTAD also organized a side event with more than 50 people at the United Nations Conference to Support the Implementation of Sustainable Development Goal 14: Conserve and Sustainably Use the Oceans, Seas and Marine Resources for Sustainable Development, held in New York, United States of America, on the importance of enhancing export opportunities for the least developed countries and small island developing States by tapping the potential of their fisheries resources. At the event, UNCTAD showcased the challenges facing Cambodia and the successful experiences of Mauritius. The outcome of the workshop was reflected in the final conference declaration.

26. A training manual on building the capacities of the least developed countries to upgrade and diversify their fish exports was finalized and validated by policymakers and practitioners in a series of national and regional workshops. The project also led to the publication of a policy-oriented research publication entitled "*Fishery Exports and the Economic Development of Least Developed Countries: Bangladesh, Cambodia, the Comoros, Myanmar and Uganda*", which identifies the binding constraints on the

[1] Cambodia, Comoros, Djibouti, Mauritius, Mozambique, Myanmar, Uganda and Viet Nam.

development of the fisheries sector in the beneficiary countries and provides policy recommendations on how best to overcome them.

27. As a result of the project, several beneficiary countries are considering revising their domestic legislation and policies so as to better support the fisheries sector. For example, Uganda has expressed an interest in adjusting its domestic food safety standards, and Mozambique intends to develop a domestic aquaculture policy.

28. The project also led to the identification of needs for the establishment of two regional centres of excellence for fisheries sector development, one in Africa and one in Asia, which could offer regular training courses for fisheries policymakers and practitioners from regional least developed countries. In March 2018, UNCTAD signed a memorandum of understanding with Nha Trang University in Viet Nam, establishing the first regional centre of excellence.

29. One of the components of building productive capacities is transport and information and communications technology (ICT) infrastructure. While UNCTAD is not involved in the construction of physical infrastructure, it has a programme to help developing countries, including the least developed countries, design, develop and implement sustainable freight transport systems.

30. UNCTAD is currently working with the authorities of the Northern and Central Transit and Transport Corridors in East Africa to assist them in developing and implementing a sustainable freight transport strategy. A training and capacity-building workshop, held in Nairobi from 14 to 18 March 2016, benefited over 80 participants from countries of the northern and central transit and transport corridors, namely, Burundi, the Democratic Republic of the Congo, Kenya, Rwanda, South Sudan, Uganda and the United Republic of Tanzania. The aim of the workshop was to strengthen the capacity of policymakers, transport operators and key financial institutions, in sub-Saharan Africa to promote and finance sustainable freight transport systems through sound transport policy measures and adequate financing actions and mechanisms.

31. As a follow-up to the training workshop, the Northern Corridor Transit and Transport Coordination Authority developed a green freight programme – the first in Africa – in collaboration with UNCTAD, the United Nations Environment Programme and the Climate and Clean Air Coalition to Reduce Short-lived Climate Pollutants. The initiative was officially launched at the forty-second meeting of the Executive Committee of the Northern Corridor on 16 January 2017.

32. UNCTAD also continues to support the least developed countries in building their capacities in science, technology and innovation, and bridging the digital divide. In October 2017, UNCTAD completed the Science, Technology and Innovation Policy Review of Rwanda, which identified several challenges for science, technology and innovation policy in Rwanda, including using technology to improve the competitiveness of firms and industries, generating demand for technology in industry and strengthening linkages among key stakeholders in science, technology and innovation. UNCTAD also conducted a training session on innovation for such policymakers and stakeholders during the National Science, Technology and Innovation Workshop, which engaged the participation of about 60 Rwandan policy experts, including 10 women, and provided comments on the draft national science, technology and innovation and research strategy of Rwanda.

33. UNCTAD has also begun work on science, technology and innovation policy reviews for Ethiopia and Uganda, which are expected to be completed in 2018 and 2019.

34. During the UNCTAD E-commerce Week 2017, UNCTAD and the Enhanced Integrated Framework organized a special session for the least developed countries. The session discussed how to mainstream ICT and e-commerce in national development plans and how to balance the trade-offs between strict regulation and innovation in these countries.

35. Tools such as the UNCTAD eTrade readiness assessments help countries take stock of e-commerce development along seven key policy areas: e-commerce strategy, ICT infrastructure and services, payments, trade logistics, legal and regulatory frameworks,

skills development and financing for e-commerce. They provide recommendations on how to move this agenda forward. In 2017, UNCTAD released such assessments for Bhutan, Cambodia, Nepal and Samoa. The assessments to be released in 2018 include those for Bangladesh, the Lao People's Democratic Republic, Liberia, Myanmar, Senegal, Solomon Islands, Togo, Uganda, Vanuatu and Zambia.

36. Further, UNCTAD started to develop a national e-commerce strategy for Rwanda. The strategy will identify the areas that have a high potential for economic impact and outline interventions aimed at easing constraints on private sector growth. The strategy is expected to be finalized in 2018.

37. In cooperation with WTO, UNCTAD delivered a workshop on e-commerce organized by the Ministry of Commerce and the Foreign Trade Institute in Bangladesh, in June 2017, which was attended by around 40 participants from different government agencies, as well as members of the private sector. The workshop explored the challenges and opportunities of e-commerce for the development of Bangladesh and the policy responses that could be developed.

B. Trade and trade facilitation

38. UNCTAD provided assistance to the least developed countries in the follow-up to the tenth Ministerial Conference of WTO and in preparation for the next one through capacity-building support, advisory services and analytical support. These activities were extended to trade negotiators and policymakers to facilitate their preparedness and greater technical capacities in issues such as agriculture, non-agricultural market access, services including the implementation of the preferential treatment in favour of services and service suppliers from African least developed countries, trade facilitation, and special and differential treatment. In this context, UNCTAD participated in a retreat of the African Group of Ambassadors and Experts in Geneva on 6 and 7 July 2017 in preparation for the eleventh Ministerial Conference of WTO and provided an assessment of the main negotiating issues from a trade and development perspective. Individual countries also received guidance on understanding the development implications of granting duty-free and quota-free market access to all least developed countries.

39. Accession to WTO represents a daunting challenge for acceding countries. This is particularly so for acceding least developed countries, which suffer mostly from weak institutional and administrative capacities to coordinate the preparatory work and deliver on the substantive technical requisites for accession.

40. UNCTAD designed and implemented assistance programmes to support Governments of acceding and newly acceded least developed countries through the delivery of intensive training courses for their trade officials and negotiators to build their skills and capacities in trade negotiations and in the implementation of their commitments in WTO. UNCTAD assistance also involves reviewing trade-related institutional, legislative and regulatory instruments and policies to ensure consistency with WTO agreements and disciplines.

41. UNCTAD has lent support to all acceding and recently acceded least developed countries.[4] For instance, advisory support was extended to the Comoros (1 and 2 June 2017, Geneva) and the Sudan (14 and 15 July 2017, Geneva). UNCTAD prepared a strategy paper for both countries on the conduct of the multilateral accession process and bilateral market access negotiations dealing with goods and services. The strategy paper also advised them on how to fully take advantage of the WTO General Council decision of 25 July 2012 on revised guidelines on the acceleration and facilitation of accessions of the least developed countries. The two countries are at the final stage of their accession negotiations, which are scheduled to conclude during the course of 2018.

[4] Examples include Afghanistan, Bhutan, the Comoros, Ethiopia, the Lao People's Democratic Republic, Liberia, Samoa, São Tomé and Príncipe, the Sudan and Yemen.

42. In 2017, UNCTAD further contributed towards the implementation of the African Continental Free Trade Area, which includes 32 least developed countries. UNCTAD has supported African countries in the completion of the first phase of negotiations of the negotiating forum and technical discussions in the task force and technical working groups dealing with the issue, including through the preparation of the draft agreement on the Continental Free Trade Area and provision of substantive technical papers on modalities for tariff cuts.

43. As part of its advisory support, UNCTAD prepared a study on the potential effects of the Continental Free Trade Area agreement on member States. The results showed the differential impact of trade liberalizations on tariff revenue losses and welfare particularly biased against the weakest members of the African Union. The report called for the implementation of supporting measures and establishing mechanisms within the Continental Free Trade Area to redistribute cost and benefits of the agreement more equitably.

44. In December 2017, trade ministers endorsed the Continental Free Trade Area agreement on goods and services. The second phase of negotiations on the Continental Free Trade Area will cover competition, investment and intellectual property rights. Nationwide stakeholder sensitization activities will be held to create awareness and ownership of the process of establishing the Continental Free Trade Area among all citizens of African countries. UNCTAD stands ready to continue its support to the African Union Commission and African Union Member States, including the least developed countries. It is expected that the implementation of the Continental Free Trade Area will help countries expand their regional trade and use it as an enabler for the implementation of the 2030 Agenda for Sustainable Development.

45. UNCTAD has also been supporting the least developed countries in the context of its assistance to the Member and Partner States of the Tripartite Free Trade Area. During the reporting period, UNCTAD has been advising the relevant countries on the second phase of the negotiations with regard to competition issues, intellectual property rights, investment and trade in services. UNCTAD proposed options for engagement in the tripartite context in light of progress in Continental Free Trade Area negotiations and other development considerations. UNCTAD participated in the meeting of the Tripartite Committee of Senior Officials on 3 February 2017 and made presentations to help countries determining how to address phase II issues in the tripartite negotiations.

46. In addition, UNCTAD provides supports to individual least developed countries in the preparation, formulation and implementation of trade and services policies. In 2017, UNCTAD continued to assist the Government of Zambia in the follow-up preparation of its trade policy framework and implementation with a view to reaching the following objectives: strengthening the country's institutional capacities in trade policy and negotiations; addressing structural constraints such as a small internal market, mineral commodity dependence, widespread poverty and a landlocked position; and diversification of exports away from copper to other products, including processed foods, fish, grains, and textiles and clothing.

47. UNCTAD also provided assistance to Malawi and Zambia in the following areas:

(a) Building the expertise of trade officials;

(b) Formulating trade policy and developing their negotiating positions;

(c) Carrying out national and regional assessment studies;

(d) Conducting research in priority services sectors and on issues relevant to regional integration, including working materials and studies to address specific issues and problems identified in the negotiations of the Southern African Development Community, economic partnership agreements and General Agreement on Trade in Services.

48. UNCTAD services policy reviews are designed to take stock of policies, regulations and institutions governing the services sector, identifying bottlenecks and suggesting practical, tailor-made solutions. In 2017, a review was initiated at the request of the Economic Community of West African States, covering 12 services sectors, including telecommunications, road and air transport, banking, insurance, construction, recreational,

cultural and sporting services, energy and education. The review is expected to provide inputs for a common trade policy on services in the Community, as well as elements for developing the region's position in the negotiations on services of the Continental Free Trade Area.

49. In response to a request from the Ministers of the African, Caribbean and Pacific Group of States, which includes 40 least developed countries, UNCTAD carried out a study of the potential for trade within that Group. The study analyses the potential economic effects of a possible free trade agreement of the Group, outlining likely benefits and challenges. The study was presented to Group representatives at expert and ministerial levels during their meeting in October 2017.

50. UNCTAD further provided inputs to the All-Party Parliamentary Group for Trade Out of Poverty (United Kingdom of Great Britain and Northern Ireland), which is completing a study on the potential of the Commonwealth – its member States, business and civil society organizations, as well as its own Commonwealth institutions – to help developing countries use trade and investment to reduce poverty and boost transformative economic growth. Thirteen members of the Commonwealth have least developed country status.

51. In the context of a Development Account project on fostering green exports through voluntary sustainability standards, UNCTAD conducted national workshops in Vanuatu (November 2017) and the Lao People's Democratic Republic (December 2017) that aimed to share information on voluntary sustainability standards and green export market opportunities, discuss the links between green export promotion and government strategies for achieving the 2030 Agenda for Sustainable Development, and promoting networking between stakeholders. Both workshops were conducted in close partnership with the relevant national government entity, the Ministry of Trade of Vanuatu and the Ministry of Agriculture of the Lao People's Democratic Republic. The outcomes of the workshops will contribute to country case studies providing an in-depth analysis of economic and technical preparedness for green exports. The studies are expected to be completed in the first half of 2018.

52. UNCTAD also assisted several least developed countries in addressing non-tariff measures. UNCTAD systematically collects information on non-tariff measures in most African least developed countries and works together with members of the Tripartite Free Trade Area to address non-tariff barriers by supporting a regional tool called tradebarriers.org, where private and public sector can air complaints about trade obstacles that then must be resolved or addressed by the corresponding country. In Asia, UNCTAD worked with the Economic Research Institute for the Association of Southeast Asian Nations and East Asia to collect data on non-tariff measures in Cambodia, the Lao People's Democratic Republic and Myanmar, and has been involved in the streamlining of such measures to facilitate trade. The data collection in three Asian least developed countries is linked to UNCTAD work with the Institute to support deep regional economic integration of the Association in the area of non-tariff measures.

53. As part of the Development Account project on development policy for sustainable economic growth, which aims to support the regional industrialization agenda in Southern Africa and facilitate the development of regional value chains, UNCTAD carried out various activities relating to African least developed countries in 2017 and 2018. Four studies were completed on the productive and export structure of five economies, including Mozambique, the United Republic of Tanzania and Zambia, focusing on promising regional value chains (mining machinery and agro-processing) and on a key enabler of development (energy). The studies were discussed with regional stakeholders at workshops held in cooperation with UNCTAD and the Government of South Africa, in Pretoria, in March 2017, and with UNCTAD, UNIDO and the Government of the United Republic of Tanzania, in Dar-es-Salaam, in December 2017.

54. UNCTAD is currently cooperating with the Economic Commission for Africa in the framework of an initiative of the Organization for Economic Cooperation and Development on global value chains, production transformation and development. In particular, UNCTAD and the Commission are working on the first Transforming Economies Report that will devote attention to development challenges and the opportunities offered by regional trade and productive integration in Africa.

55. Within the Enhanced Integrated Framework, UNCTAD developed a project on the Djibouti City–Addis Ababa Transit and Transport Corridor and continued to implement a regional project on trade facilitation in West Africa. In addition, UNCTAD continued its assistance to Benin through a project on strengthening productive and trade capacities. Further assistance on rules of origin, duty-free and quota-free market access and the Everything But Arms scheme was provided to the Governments of Cambodia and Myanmar. In collaboration with the Department of Trade and Ministry of Justice of Hong Kong (China), UNCTAD provided support on drafting rules of origin in free trade areas, to enhance trade possibilities for the least developed countries. In 2017, UNCTAD also continued to assist the least developed countries on issues related to geographical indications.

56. In the area of trade facilitation, UNCTAD provided technical assistance and capacity-building to the least developed countries in respect of the implementation of the WTO Agreement on Trade Facilitation, which in part II of the Agreement contains special and differential treatment provisions for the least developed countries, including self-assessment of implementation readiness, timing of implementation and needs assessment for assistance.

57. During the reporting period, UNCTAD provided trade facilitation assistance to the following least developed countries: Angola, Benin, Burundi, Djibouti, Ethiopia, Liberia, Myanmar, Mali, Rwanda, Sao Tome and Principe, Senegal, the Sudan, Uganda, the United Republic of Tanzania and Zambia. Assistance focused particularly on needs assessments regarding the implementation of the Agreement on Trade Facilitation, advisory services on categorization and notification of obligations and ratification of the Agreement, technical assistance on the establishment and operation of national trade facilitation committees and on the development of project proposals for donor support.

58. UNCTAD also provided trade facilitation assistance to a number of regional organizations with least developed country members, in particular, the African Union, the East African Community, the Economic Community of West African States and the Southern African Customs Union. UNCTAD worked with regional training institutions such as the Trade Policy Training Centre in Africa to provide capacity-building to the least developed countries in the Africa region.

59. The Automated System for Customs Data (ASYCUDA), currently installed in 99 countries and territories, is being used by 38 least developed countries, which receive remote technical and functional assistance from the UNCTAD Central Team.[5] ASYCUDA helps to reduce customs clearance cost and time, fight corruption and improve security.

C. Investment and enterprise development

60. During the reporting period, 26 least developed countries benefited from UNCTAD assistance in support of investment and enterprise development, aimed at building the competitiveness of such countries and enhancing their attractiveness as destinations for foreign investment.

61. Of the 42 completed investment policy reviews, 17 were prepared for the least developed countries. During the reporting period, UNCTAD published a review for the Gambia. Some five or six years after the completion of such a review, UNCTAD prepares a report that assesses the extent of the implemented recommendations. In the reporting period, the implementation report for Benin was prepared. Work commenced on reviews for Angola and Chad.

[5] Afghanistan, Angola, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Nepal, Niger, Rwanda, Sao Tome and Principe, Sierra Leone, Solomon Islands, Sudan, Timor-Leste, Togo, Uganda, Vanuatu, Yemen and Zambia.

62. The investment policy review programme continued to demonstrate its relevance, quality and impact. The implementation reports prepared by UNCTAD for the least developed countries showed a strong implementation record, increased interest by investors and greater capacity for market investment opportunities. In most cases, following the review of their investment policies by UNCTAD, beneficiary countries recorded significant increases in inflows of FDI. The value delivered through investment policy reviews and follow-up activities has prompted a number of additional requests for the reviews, including those made by Bhutan, the Central African Republic, the Democratic Republic of the Congo, Guinea-Bissau, Haiti, Malawi and Mali.

63. In 2017, UNCTAD assisted a number of least developed countries in reviewing their model international investment agreements with a view to enhancing their development dimension and legal clarity. This includes the models of several regional groupings to which the least developed countries belong, notably the Common Market for Eastern and Southern Africa, the Pan African Investment Code and the Investment Chapter of the African Continental Free Trade Area Agreement. Individual least developed countries that benefited from the review of model international investment agreements or bilateral trade agreements included Bangladesh, Burkina Faso and Madagascar.

64. Every year, UNCTAD, in cooperation with the Islamic Development Bank and the Moroccan authorities, organizes a training workshop for members of the Bank in Casablanca, Morocco, aimed at deepening understanding of international investment agreements; examining key issues, problems and interests related to the sustainable development dimension of the agreements; and discussing negotiating techniques and strategies. In 2017, participants from 29 countries benefited from the training, 15 of which were least developed countries.

65. In cooperation with the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, UNCTAD organized a dialogue on investment promotion priorities in the least developed countries during the General Assembly in September 2017 in New York. Forty least developed countries were represented. In tandem with this conference, UNCTAD attended an inter-agency meeting to advise on improvements in the effectiveness of United Nations support to these countries in this area. Participants included representatives of the International Labour Organization, the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, UNCTAD (which hosted the meeting at its New York office), UNIDO, the United Nations Office for Project Services and WTO.

66. Although nearly all least developed countries have a national investment promotion agency and often subnational institutions that promote investment, the capacity level of these agencies continues to be limited. There are, however, best-practice exceptions such as Ethiopia, Rwanda and Senegal. UNCTAD aims to share best practice from around the world, including from the least developed countries, in a manner that can be replicated by other investment promotion agencies in a scalable and sustainable manner. To support the exchange of best practices, every year UNCTAD recognizes a few agencies for their achievements in promoting investment for sustainable development and shares experiences from those agencies with other agencies. In 2017, the Ethiopian Investment Commission and the Board of Investment of Mauritius were among the winners of the United Nations Awards for Promoting Investment in the Sustainable Development Goals.

67. In the review period, senior investment promotion officials from the least developed countries participated in training and the exchange of best practices in investment promotion during events organized by UNCTAD, including regional seminars on the preparation and promotion of bankable projects relating to the Sustainable Development Goals and the creation of partnerships with outward investment agencies and institutions in Johannesburg, South Africa (May 2017) and Mexico City (November 2017). Investment promotion officials from the least developed countries also participated in a training course on FDI essentials held by the World Association of Investment Promotion Agencies in Istanbul (January 2018). As part of a long-standing partnership, UNCTAD contributed to the course with training modules on national and international investment policies. At the country level,

UNCTAD provided training on cost–benefit analysis of investment projects to officials from the Government of Myanmar (January 2018).

68. UNCTAD continued to produce publications on investment promotion and facilitation. A publication entitled "Investment Facilitation: The Perfect Match for Investment Promotion" presents practical examples from investment promotion agencies that illustrate how some of the tools and techniques of the UNCTAD global action menu for investment facilitation and other policy instruments can be deployed. This paper was widely distributed among the least developed countries. At their request, UNCTAD published an overview of FDI in the least developed countries, describing related trends and issues.

69. A strong accounting infrastructure that produces high-quality corporate reporting is a critical factor for attracting investment, allocating scarce resources, and promoting financial inclusion. However, achieving this remains a challenge for many least developed countries. During the reporting period, an African regional workshop on financial inclusion and best policy practice and guidelines on accounting and insurance regulation for micro, small and medium-sized enterprises was held in Nairobi on 19 and 20 July 2017, which benefited the following least developed countries: Benin, Ethiopia, the Gambia and the United Republic of Tanzania.

70. The Business Facilitation eRegulations Programme of UNCTAD helps countries simplify and automate their rules and procedures relating to investment and entrepreneurship, often reducing administrative procedures, and required forms and documentation by 80 per cent. Its eRegulations system is operational in 11 least developed countries.* The system contributes to increased transparency and greater institutional capacity, thereby facilitating business and making such countries more attractive to foreign investors. This has helped the creation of new businesses in beneficiary countries.

71. Apart from the existing eRegulation systems in these countries, UNCTAD developed a trade portal – a new facilitation tool focusing on trade procedures – as a product extension. In 2017 trade portals were implemented in Benin, Bangladesh, Mali and Senegal. Similar portals are also being implemented in Rwanda, Uganda and the United Republic of Tanzania.

72. Additionally, UNCTAD online investment guides seek to raise awareness among the international investment community of investment opportunities and conditions in beneficiary countries. Investment guides have been or are being developed online for Burundi, the Democratic Republic of the Congo, Djibouti, Malawi, Rwanda, Uganda and Zambia. The investment guides of Malawi and Zambia are being developed in partnership with the Economic Commission for Africa.

73. During the reporting period, UNCTAD continued to provide assistance to its Empretec centres in the least developed countries through advisory services, policy workshops, training to entrepreneurs and small and medium-sized enterprises and support to regional networks and initiatives. In particular, UNCTAD strengthened the capacity of Empretec centres in the Gambia, the United Republic of Tanzania and Zambia, through the provision of several training-of-trainers sessions. Six national stakeholder workshops on entrepreneurship policies took place in the Gambia and the United Republic of Tanzania. Further, the Gambia launched its National Entrepreneurship Policy and Action Plan, and the United Republic of Tanzania presented its Inclusive National Entrepreneurship Strategy. In the first quarter of 2018, UNCTAD, in collaboration with UNIDO, aims to further assist the Government of Ethiopia to develop a national entrepreneurship strategy.

74. UNCTAD continued to identify business linkage opportunities, including effective partnerships with large firms, in horticulture and sustainable tourism (United Republic of Tanzania) and construction (Zambia). The linkage-building activities, conducted in cooperation with other United Nations agencies, allowed UNCTAD to provide assistance to over 600 farmers in the United Republic of Tanzania and 200 entrepreneurs in Zambia. In 2017, 175 Tanzanian farmers were trained using Empretec and farming as a business

* Benin, Burkina Faso, Comoros, Ethiopia, Guinea-Bissau, Mali, Niger, Rwanda, Senegal, Togo and United Republic of Tanzania.

methodology, and 60 small-scale suppliers successfully completed an Empretec entrepreneurship-training workshop.

75. In December 2017, UNCTAD and the Rwanda Development Board organized the Africa Entrepreneurship Policy Forum, which attracted 120 delegates from 20 countries to share experience and views, learn from best practice and explore avenues for strengthened cooperation at the regional and continental levels.

D. Debt issues

76. External debt is one of the major concerns raised under section G, Mobilization of financial resources for development and capacity-building, of the Istanbul Programme of Action, in the context of the financial resource constraints faced by the least developed countries in striving to achieve sustainable development. While there has been a clear improvement in the debt ratios of many developing countries, as a result of debt relief and improved debt management, many least developed countries still face significant challenges.

77. Recognizing the significant risk of economic shock posed by debt crises in the least developed countries, UNCTAD implemented a Development Account project on building capacity to address regulatory and institutional gaps in sovereign debt governance. The beneficiaries were all least developed countries, namely Bangladesh, Haiti, Mauritania, Nepal and Togo.

78. The project was implemented during the 2013–2017 period, and its main activities consisted of conducting a diagnostic study of the countries' institutional and regulatory framework with respect to sovereign debt governance, providing capacity-building to fill the gaps identified in the study and organizing a study tour for policymakers from project countries to a host country with a more developed institutional framework in sovereign debt management. Representatives of all five countries mentioned above were invited to the eleventh Debt Management Conference in November 2017, where they had the opportunity to familiarize themselves with the latest issues in sovereign debt management.

79. The Debt Management and Financial Analysis System (DMFAS) provided ongoing support to a number of least developed countries in building their capacity to effectively management their public debt and achieve sustainable debt levels. DMFAS offers countries a set of proven solutions in the downstream areas of debt management (debt data recording, reporting and statistics) aimed at improving their capacity to handle the day-to-day management of public liabilities and producing reliable debt data for policymaking purposes. These solutions include its debt management software and related training and advisory services. During the reporting period, the programme provided support to 21 least developed countries.[1]

80. Tangible results include the availability of timely and reliable debt records, which are essential for prudent risk analysis and the elaboration of strategies for ensuring sustainable debt levels. By the end of the period, over 90 per cent of the countries that had received support had a comprehensive and government-guaranteed external debt database, and nearly 60 per cent had complete domestic debt records in the DMFAS software. Additional results include improved debt reporting and debt analysis. For example, eight of the least developed countries concerned issue a debt statistics bulletin on a regular basis; all of them report to the debtor reporting system of the World Bank, which is a critical reporting requirement. In addition, 10 DMFAS user countries from the least developed country group subscribing to the International Monetary Fund–World Bank quarterly external debt statistics database report on a timely basis. In terms of improved analysis, seven DMFAS countries regularly publish a debt portfolio analysis report.

[1] Angola, Bangladesh, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Democratic Republic of the Congo, Djibouti, Ethiopia, Guinea-Bissau, Haiti, Lao People's Democratic Republic, Madagascar, Mauritania, Rwanda, Sudan, Togo, Uganda, Yemen and Zambia.

81. Overall, these concrete results contributed to enhanced transparency, good governance and improved institutional capacity to ensure sustainable debt levels. The improvements achieved by these countries with UNCTAD support demonstrated the benefits and importance of providing them with continued technical assistance on downstream debt management.

E. Human and social development

82. During the reporting period, UNCTAD supported the efforts of Burkina Faso, Côte d'Ivoire, Mali, the Niger and Senegal on technology transfer and access to medicines by organizing a regional workshop on technology transfer and public health, in Dakar, in cooperation with the United Nations Development Programme, the Joint United Nations Programme on HIV/AIDS and Yolse Public Health and Innovation. Following the regional workshop, the directors of the beneficiary countries' national intellectual property offices and national health directorates agreed on a set of recommendations to enhance coherence among domestic policies and improve communication with the secretariat of the African Intellectual Property Organization.

83. UNCTAD also organized a training programme for research directors on innovation, intellectual property and technology transfer, with a focus on the agricultural sector, in Bishoftu, Ethiopia, in November 2017. The training was designed to assist researchers in building a sustainable relationship with the private sector by fostering an integrated approach to innovation, intellectual property and technology transfer.

84. On 14 November, UNCTAD participated in a workshop held by the World Health Organization on an inter-agency framework of collaboration for the implementation of the National Strategy and Plan of Action of Ethiopia for the pharmaceutical sector in Addis Ababa. The objective of the workshop was to review the state of play of implementation of the strategy and plan of action and to discuss next steps with the Ethiopian Government and among partner agencies.

85. During the reporting period, UNCTAD was requested to provide substantive comments on the draft national intellectual property strategy of Uganda. After review, UNCTAD comments were incorporated in the draft.

86. Further, UNCTAD implemented a series of activities aimed at providing support to the least developed countries in ensuring that trade and development policies and policies promoting gender equality were complementary and mutually supportive.

87. Building on its analytical and operational work, UNCTAD developed a trade and gender toolbox, which aims to provide a systematic framework to evaluate the impact of trade reforms on women and gender inequalities prior their implementation. The Secretary-General of UNCTAD launched the toolbox during the sixth Global Review of Aid for Trade held at WTO in Geneva in July 2017.

88. UNCTAD also organized its first targeted regional online course on the relationship between trade and gender in the Common Market for Eastern and Southern Africa (29 May–23 July 2017), training 50 participants from the Secretariat and Member States of the Common Market on the interaction between trade and gender issues and in producing gender-aware policy recommendations and research. Twelve of the 19 member countries of the Common Market are least developed countries. A second regionally focused online course is planned for the East African Community and scheduled to be held in April and May 2018. The regional courses complement general analysis on the relationship between trade and gender, with material addressing the specific regional context, aiming to equip participants with the skills needed to interpret data on women's participation and gender inequalities in various economic sectors and to formulate policies and practices to advance the status of women in the region with regard to trade integration.

89. In partnership with Trade Mark East Africa, UNCTAD finalized a report entitled *East African Community Regional Integration: Trade and Gender Implications*. The report presents the economic, trade and gender profiles of partner States of the East African Community and analyses the impact of its regional integration on women's well-being with

a focus on women's employment. The report also provides recommendations on how to make regional integration increasingly beneficial for women in the East African Community. The report is expected to be launched in Nairobi in April 2018.

90. UNCTAD implemented a project to assist women cross-border traders in Eastern and Southern Africa. Field research for the project has shown that women engaging in informal cross-border trade in Malawi, the United Republic of Tanzania and Zambia face multiple challenges: complex, lengthy and costly border procedures; limited knowledge about customs rules and processes; language barriers; corruption, insecurity and harassment at the border; limited capital; and inadequate knowledge about entrepreneurship. After consultations with the Governments concerned, UNCTAD drafted a report outlining measures that could facilitate informal cross-border trade between the three countries, especially for women. The project also facilitated increased interaction and awareness among stakeholders, including border officials, about the concerns faced by informal small-scale traders.

91. In addition, UNCTAD took part in a number of workshops and meetings to advocate for gender-sensitive trade policies, including the annual Continental Workshop on Trade and Gender, held by the Economic Commission for Africa in Addis Ababa on 31 October 2017, as well as a consultative meeting on the African Union Gender Strategy in November 2017, where UNCTAD provided comments on the draft document.

IV. Lessons learned

92. With less than three years remaining until the target date of 2020, the prospects for meeting of the goals and targets of the Istanbul Programme of Action are fading fast. Failure to achieve significant progress for this most vulnerable group of countries by the deadline would put into question their ability to achieve the Sustainable Development Goals by 2030 and threaten to undermine the credibility of the global commitment to "leave no one behind".

93. While many of the goals and targets of the Programme were deliberately chosen to be ambitious and may have been difficult to achieve in the best of circumstances, the least developed countries are currently faced with worse development prospects than when the Programme of was adopted. Against this background, urgent efforts are required both by the least developed countries and development partners to strengthen implementation of the Programme.

94. UNCTAD is receiving more and more demands for technical assistance from these countries, including in the areas of graduation, diagnostic trade integration studies, trade policymaking, investment policy reviews and statistical capacities. The growing demand is testimony to the quality and value added of UNCTAD support. However, its capacity to meet growing demand is limited by available resources. The Trust Fund for the Least Developed Countries, for example, has not received a contribution since 2014.

V. Policy recommendations

95. The Trade and Development Board may wish to consider the following action:

(a) To express concern at the development trajectory of the least developed countries in recent years, in particular that they are lagging behind other developing countries with regard to several indicators;

(b) To request a review of the contributions to the Trust Fund for the Least Developed Countries, and appeal to all donors and other countries in a position to do so to enable UNCTAD to respond to the increasing demand for technical assistance by the least developed countries.

(c) To urge the improved implementation of commitments in support of the Istanbul Programme of Action by all stakeholders.

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Economic development in Africa

Economic development in Africa: Migration and structural transformation

Overview

Executive summary

Africa is projected to have the largest population growth of any geographical regional globally by 2050, which will have important consequences for international migration and major implications for the continent's economic development. People will move, as they always have. The question therefore is not whether people will move, but where they will move to and under what circumstances and conditions so that any move unleashes
their economic potential. To tap this potential fully will require stronger efforts towards establishing a vision for migration management that best contributes to the continent's structural transformation.

The *Economic Development in Africa Report 2018: Migration and Structural Transformation* analyses the broad patterns of continental migration and the contributions of the diaspora to the structural transformation of origin countries. The report's findings offer new insights that enable UNCTAD to make policy recommendations for African Governments and migration stakeholders outside the continent. The report argues that African migration can play a key role in the structural transformation of the continent's economies. Well-managed migration also provides an important means for helping to achieve the Sustainable Development Goals, both in Africa and beyond. The report adopts an innovative, human-centred narrative that explores how migrants contribute to structural transformation and identifies opportunities for absorption of extra labour in different sectors across the continent.

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Introduction

1. Africa has the fastest rate of demographic growth in the world. The continent is now at a crossroads. The question is whether its growing working population will lead to a much hoped for demographic dividend. In recent years, images of African youth attempting to cross the Mediterranean Sea to reach Europe have dominated 24-hour news channels and contributed to increased attention to the international dimension of migration. The flow of migrants out of Africa to other regions, particularly to Europe, has dominated political debates. As boats have continued making their way through the Mediterranean Sea, African migration gradually became one of the top topics in international affairs. By contrast, there is an intra-African dimension, characterized by the flow of migrants in and out of countries or regions within the continent, that has received little attention in the migration and development discourse, despite its economic importance.

2. The *Economic Development in Africa Report 2018: Migration and Structural Transformation* attempts to put together key pieces of the puzzle of African migration and what migration means for the continent's structural transformation. The report draws on existing knowledge on the theoretical and empirical underpinnings that link migration and structural transformation. Compiling diverse sources of highly aggregated and microlevel household data, the report uses a range of analytical tools, both qualitative and quantitative, to provide an account of how intra-African migration can contribute to socioeconomic development in origin and destination countries. It also discusses what Africans have gained from migration to the North as well as to other parts of the world.

3. Putting an African lens to the migration narrative, the report investigates how African countries could capitalize on the economic potential of the continent's domestic and foreign human resources both at home and abroad to drive structural transformation.

4. The report also seeks to provide a better understanding of the multiple dimensions of migration in Africa and how they are interwoven with economic and trade factors at the household, regional and continental levels. Though intra-African migration is relevant to regional and continental integration, knowledge gaps persist on its socioeconomic and trade impact.

I. Main findings

A. Migration in Africa is primarily intracontinental

5. More than half (53 per cent) of Africa's international migrants in 2017 remained on the continent. With the exception of Northern Africa, the share of intra-African migration was much higher, as more than 80 per cent of international migrants from the continent resided in each of the following regions: Eastern, Middle and Western Africa.

B. Intra-African migration is a catalyst for economic growth

6. The report findings show that intra-African migration can positively impact structural transformation in destination countries. UNCTAD forecasts based on existing migration scenarios indicate that immigration flows could lead to a substantial increase in gross domestic product (GDP) per capita for Africa by 2030. In economic terms, this implies reaching a GDP per capita of $3,249 in 2030, growing at a compound annual growth rate of 3.5 per cent from 2016. The average value of GDP per capita in Africa was $2,008 in 2016.

7. Remittance inflows to Africa account for half of all private capital flows into the continent and have risen from $38.4 billion on average in 2005–2007, to $64.9 billion in 2014–2016. However, empirical analysis finds that, despite being recipients of relatively large amounts of remittances, sending countries experienced a weaker (indefinite) effect of

migration on structural transformation. Reasons for the relatively low impact included the impact of a loss of skilled labour and lower tax revenues, structural constraints to economic development as well as regulatory hurdles such as the high costs of remittances and of recruitment services. Removing these barriers and improving policy and regulatory conditions are necessary requirements for maximizing the benefits of migration on sustainable structural transformation in these countries.

8. The report finds that migration can contribute to improved labour productivity in destination countries. An increase in the stock of immigration leads to a higher within-sector productivity growth rate. This effect increases in magnitude for sectors that experienced relatively high migration in the past (agriculture, manufacturing, mining, construction and services). The report finds that an increase in immigration is associated with a rise in manufacturing value added, but notes the limited impact of productivity enhancements on job creation. This could be related to the relative scarcity of good quality, skilled manufacturing jobs in most African countries.

C. Migration generates durable growth and development benefits

9. The report's findings on the positive impact of migration to growth and socioeconomic development in both destination and origin countries are in line with other studies that show that the estimated contribution of immigrants to GDP ranges from about 1 per cent in Ghana, to 19 per cent in Côte d'Ivoire. Migration also contributes to destination countries' development through taxes and consumption, with migrants spending approximately 85 per cent of their incomes in their destination country. Thus, besides contributing to current output, immigrants provide a demographic boost to the existing and future labour force in destination countries. UNCTAD research into economic transmission channels of migration indicates that there is an additional positive effect of educated immigration (with higher education mostly in origin countries rather than destination countries) on structural transformation. There is also some evidence that return migration to origin countries brings knowledge and skills that can spur productivity.

D. Migration boosts trade

10. The report's examination of food trade patterns within the continent highlights the pro-trade effect of migration. Assuming emigrants have a higher income in their new home countries, the amount of exports will increase and with that, financial inflows to the origin country. Similarly, it appears that food imports from within the continent have increased for main receiving countries, often at much faster rates than the rate of immigration from other African countries.

E. Migration fosters inclusive growth and wider livelihood opportunities for women migrants

11. Migration by women is not only growing in importance in Africa, but women migrants are contributing to inclusive growth in both origin countries and destination countries. Women migrants contribute significant in-kind remittances to the economies of their households and communities. However, women migrants in Africa face significant challenges (care and family responsibilities and competitive disadvantages in labour markets) that not only impact their migration experiences, but also their attainment outcomes in labour markets in destination countries.

F. Both semi- and low-skilled immigrants contribute to growth in destination countries

12. Well-managed labour migration (i.e. among other measures, through flexible labour policies that target low- and semi-skilled migrants) can facilitate labour mobility while addressing gaps in regional labour markets with short supply. These workers fill labour

gaps which could in theory enable indigenous workers in destination countries to take on higher value work. The report finds evidence of some upskilling among low- and semi-skilled migrants, which can have a positive impact on productivity. However, low- and semi-skilled migrants are sometimes disadvantaged in regional labour markets. There is clearly a need to expedite implementation of the African passport to facilitate the mobility of Africans on the continent. Rwanda is a further example of good practice, as it has labour legislation provisions that allow citizens from East African Community partner States to work in the country, and for granting work permits to foreign workers, along with the establishment of a temporary resident permit for semi-skilled workers.

G. Migration is neither a burden nor a panacea for achieving the Sustainable Development Goals

13. As policy frameworks are not fully appropriate in catalysing the impact of migration on socioeconomic development, migration cannot be seen as a burden nor a panacea for achieving the Sustainable Development Goals. The report finds that migration plays a minor role in influencing the trends of social development-related indicators in both sending and receiving countries. Increased immigration does not appear to alter wage differentials or lead to increased public spending on health. However, in destination countries, immigration leads to both higher expenditures on education and better attainment outcomes. An examination of possible prospects of many countries in achieving the health- and education-related Sustainable Development Goals by 2030 and 2063 indicates relatively good scoring overall, though these prospects could be better. An increase in migration takes place in parallel with improvements in education and health, especially for women.

H. Align migration, trade and investment policies with long-term development objectives

14. Results of the analysis in this report also imply that, to avoid replicating some of the pitfalls associated with trade liberalization, the conditions for enabling dynamic changes in the temporal and spatial allocation of skilled and unskilled labour across countries should be satisfied. To this end, countries need to align migration, trade and investment policies with their long-term development objectives. In other words, Africa's migration policy and regulatory framework should enable a country with a large degree of emigration of unskilled labour in 2017 to aim towards becoming a destination country of skilled labour in the future. The report's analysis identified opportunities in agriculture, services and manufacturing across the continent's different regions. Coherent migration policies at the national, regional and continental levels will be key to reaping the benefits associated with the relevant different value chains.

II. Policy recommendations

A. Build coherence in migration, trade, investment and technology policies in creating the conditions for structural transformation

15. In most cases, people move in search of a better life. They move because they want to find decent employment. A fast-growing services sector is setting the course for an unconventional path to the continent's structural transformation. However, development of the labour-intensive agriculture and manufacturing sectors remains necessary. With the right infrastructure, an enabling policy and regulatory environment and a skilled workforce, Africa can become a world leader in a number of commodity-based industrial value chains. This report has identified countries and sectors with such potential. There should be collective efforts to gather public and private sector actors to conduct a skills-mapping exercise across these leading sectors. Such an assessment should then serve as the basis for planning human capital development, including in vocational training and in tertiary

education, and contribute to the design of regional and continental operational migration plans.

16. Lack of coherence across macroeconomic, trade, investment and technology policies feature prominently among the many reasons for the continent's limited progress on industrialization. Managed migration for structural transformation could be a unifying element and an impetus in efforts to achieve greater coherence across these fields. With this in mind, ongoing reforms of international investment agreements should be aligned with the priorities of Africa's industrialization and regional integration agendas.

17. African Governments should be mindful of maintaining policy and regulatory space to allow catering to the needs of their individual industrialization strategies. Such regulatory space could include the prioritization of pan-African labour mobility and the transfer of skills and technology. The exact design of priority lists and sector-specific policies is likely to differ across countries, but the common thread should be the development of a competitive and innovative African labour force.

B. Implement existing policy, legal and regulatory frameworks on the free movement of persons at the continental level

18. The free movement of persons and labour migration constitute central elements of the African Union's objective of a united and integrated Africa. In addition to migration policies and protocols, the Declaration and Plan of Action on Employment, Poverty Eradication and Inclusive Development (Ouagadougou+10) adopted by the African Union in 2015 situates labour migration as a key priority area. Similarly, the Strategic Plan 2014–2017 of the African Union Commission included the promotion of labour migration as a specific strategy. In addition, efforts to operationalize the 2006 African Union Migration Policy Framework for Africa and to strengthen the effective governance and regulation of labour migration and mobility in Africa, led to the adoption of the Labour Migration Governance for Development and Integration by the 24th Assembly of the African Union in January 2015 and, in 2017, of the African Union Revised Migration Policy Framework for Africa and Plan of Action (2018–2027). The African Union has also established institutions specifically tasked with addressing diaspora and remittances matters. These include the African Union Commission's Centre for Citizens and Diaspora Directorate and African Institute of Remittances. Reasons for the slow pace in the effective implementation of existing frameworks include limited information on the distribution of gains and losses stemming from the liberalization of labour flows. The findings of the *Economic Development in Africa Report 2018* contribute to filling the information gap on thematic areas associated with regional integration processes.

19. The report's findings also indicate a need for thematic action plans at the continental level. With regard to labour mobility, for instance, the implementation of continental-level migration frameworks should be accompanied by the design of mechanisms for optimal adjustment to skills shortages between the continent's various subregions. On this point, specific measures include the harmonization of qualifications at the continental level. Additional measures should be established to enable private investors to circumvent variations in labour mobility protocols across African regional economic communities due to different dynamics that reflect the diverse interests of its member countries.

C. Establish regional and continental mechanisms for harnessing the benefits of intra-African migration for structural transformation

To member States

20. Regional economic communities could integrate migration and the principle of co-development into their policy frameworks. The principle of co-development considers migrants central partners in development cooperation projects and programmes and, as a policy approach, seeks to maximize the benefits of migration for origin and destination country stakeholders. In this regard, national migration policies could be informed by this

report's findings on economic and trade implications of migration. These findings take into account a typology of countries based on their levels of immigration (high, medium and low) and how these relate to their varying stages of progress with regard to the Sustainable Development Goals and to Agenda 2063. Countries could also draw lessons from the integration of the principle of co-development in relation to origin, transit and destination countries in the migration strategy of Morocco. Co-development initiatives include capacity-building for migrant associations and incentives for skills transfers, investments in productive sectors in origin countries and facilitation of circular migration.

To regional integration organizations

21. The rise of mixed migration, a combination of regular and irregular migration, underscores the essential role that coordination at regional level could play in informing the decisions of national coordination committees. A managed migration policy also requires a good understanding of how irregular migration, human trafficking and smuggling negatively interfere with the optimization of the development impact of migration. To this end, in the Horn of Africa, for example, countries should align the design and the implementation of their national policies with existing regional initiatives, such as the 2006 Ouagadougou Action Plan to Combat Trafficking in Human Beings, Especially Women and Children, as well as the African Union Horn of Africa initiative on human trafficking and the smuggling of migrants. In addition, recommendations laid out in the 2014 Khartoum Declaration on human trafficking and smuggling, also associated with a rise in the number of refugees, should be implemented.

22. Drawing on support from a range of development partners, the Intergovernmental Authority on Development regional migration framework offers a number of good practices that could be replicated elsewhere. The regional migration framework is a non-binding reference document that strives to offer member States a coherent and common approach to migration management. It promotes the development potential of migration and offers guidelines and principles to assist Governments in the formulation and implementation of their own national migration policies in line with their own priorities and resources. Its ultimate objective is the protection of migrants in all Intergovernmental Authority on Development member States. The Intergovernmental Authority on Development also boasts a regional consultative process, a regional dialogue platform whose decisions are yet to be fully implemented. Its Regional Migration Coordination Committee is also a forum for exchange. However, the Migration Action Plan 2015–2020 developed subsequently has yet to translate into relevant national level results and timebound actions and measures. To that end, greater resources should be devoted to building the capacity of policymakers and migration-related institutions in member countries.

23. Regional economic communities and the African Union should join forces in promoting platforms for public–private sector dialogue and information sharing. At present, the imperfect flow of information leads to inefficiencies both in individual and policy-level decision-making processes. Many private sector platforms gather recruiters, employers and students and migrants from African countries such as Carrefour Africain. Such initiatives could for example be expanded to include other actors and be carried out at the regional and continental levels. Establishing links between private- and public-sector stakeholders in the migration industry is key to effective migration policies for the continent's structural transformation. Efforts should be based on effective collaboration between sending and receiving countries, continental-level organizations and business associations. These platforms should also integrate policymaking actors from receiving countries outside the continent to address contrasting views on migration. There is ample evidence showing that, at the global level, the private sector is aware of the commercial benefits to be derived from Africa's greater integration and migration flows. In contrast, the political rhetoric of destination countries in some developed countries is increasingly dominated by restrictive and negative measures against migration. Bringing the two sets of stakeholders together could benefit job creation schemes, while also contributing to changing negative perceptions of migration.

To destination countries

24. Regularization of working migrants should be made a priority. Existing examples of such initiatives show that, as a result, contributions to national economies of migrants are more fully acknowledged and incorporated into a country's GDP. They offer better protection to migrants, including through facilitation of payment of national insurance contributions and taxes. Regularization campaigns can highlight the extent of missed opportunities in contributions to the real economy. In Morocco, for instance, a second phase of regularization was conducted between December 2016 and the end of 2017. There were 26 860 requests filed in 70 provinces and districts across the country.

25. Managed migration policy frameworks in destination countries tend to focus on attracting highly skilled migrants. Though more needs to be done to acknowledge the role of lower-skilled labour in the strategy and subsequently in its development trajectory, the mix of measures that target both ends of the skills scale in the migration strategy of Morocco is an example of African good practice. Key non-discriminatory measures in favour of migrants in the migration strategy are as follows: removal of national preference in the private sector for migrants who benefitted from the exceptional regularization operations, reduction of the processing time for certificates of proofs of activity from 30 days to 48 hours for migrants with sought-after skills and of managerial level; establishment of an online platform to facilitate visa requests for Moroccan foreign workers, with a maximum processing time of 10 days; removal of preferences for Moroccan citizens in specific areas of activities, including nurses and midwives; and removal of restrictions on the creation of cooperatives by foreigners. However, harmonizing the labour code with the migration strategy is in progress. Morocco is now officially engaged in the fight against abusive labour conditions and the promotion of migrant workers' rights as ratified in 2016 in Convention No. 143 of the International Labour Organization. Similarly, equality of social security conditions compliant with the 1964 International Labour Organization Convention concerning Equality of Treatment of Nationals and Non-Nationals in Social Security (No. 118) is yet to be adopted. The 2017 monitoring report led to identification of areas for improvement. These recommendations constitute opportunities for learning lessons on the design and implementation of other countries' migration policies.

26. This report agrees that there is a need to promote greater engagement of diaspora on development of their origin countries. The potential of contributions of the African diaspora in this area is now widely acknowledged. It has led to the popularity of diaspora policies at the national, regional and continental levels. Since the inaugural Global African Diaspora Summit took place in South Africa in 2012, the diaspora is recognized as a sixth region of Africa, which has led to the creation of specific diaspora directorates at the country and continental levels. The case of Ethiopia stands out among countries where such institutional frameworks have emerged in recent years. Other countries at a similar level of institutional capacity development could derive insights from the country's experience. More efforts are needed on moving towards one-stop facilities, such as in Mauritius, and on establishing stronger coordination mechanisms. Moreover, many donors are supporting diaspora-related initiatives and investment funds. In all these initiatives, adapting engagement of the diaspora to the specific needs of origin countries for structural transformation should be given priority.

D. Adopt gendered perspectives in migration policy and regulatory frameworks

To all parties

27. In designing gender-sensitive migration policy measures, attention should be given to anchoring the specifics of the approach in a rights-based framework, as outlined by the Beijing Platform for Action of the 1995 Fourth World Conference on Women. This implies considering three rights dimensions. First, women's rights to legal migration opportunities should be guaranteed. Women should have access to and participate in safe and legal employment opportunities. Second, women's rights should be guaranteed during the

migration process, by striving for the provision of safe and secure recruitment, equal pay, decent working conditions, access to legal services and a right to family life. And third, migration in itself should lead to the realization of women's rights, encompassing increased autonomy and power to negotiate the terms of work in the destination country so that migration works for women and their families.

To regional integration organizations

28. Incorporating a gender perspective into migration frameworks can help to address the unique challenges that women migrants face. Given the growing importance of women's economic migration in Africa, regional economic communities can play a role in optimizing outcomes for women migrants by developing policy frameworks on labour migration that integrate gender-specific elements and address the underlying challenges that women migrants face in respective regional labour markets.

To origin countries

29. Today, women migrants contribute to the future of tomorrow's citizens. Their migration experiences and the remittances they send to their origin countries play a role in shaping the conditions of the continent's structural transformation. While many women are aware of the working conditions they will encounter in the destination country, occasionally the risks are beyond expectations. Nonetheless, hearing their voices implies moving from moral judgments, especially in cases of existing bilateral agreements, to the design of policies and measures that would optimize their contributions to the socioeconomic development path of their origin countries.

30. Engendering migration policies should include recognition of the value of women migrants' experience. This could be done, for example, through certification schemes for former domestic workers in order to support their integration into higher levels of the care economy value chain. At a more general level, national policies tend to discriminate against women migrants through generalized conceptions of the migrant as a male, full-time worker and in some countries, more explicitly through outright bans on women's migration. In addition, the work that women migrants do can be disregarded as "not real work" and thus excluded from policy attention. The report's findings underline the need to reverse the trend in gender-blind migration policy and regulatory frameworks.

To destination countries

31. Normative references to workers as male can restrict the rights of women migrants. The historical legacy in many States of men's migration unaccompanied by family members, for example, fails to consider new trends in women's migration. More often than not, legislation does not make provisions on the status of family members. National laws should be adjusted and account for the diversity in migrants' gendered experiences. Legal and regulatory frameworks should also be able to cater to the complex realities of the multiple activities of women migrants at the lower end of the informal economy.

32. Furthermore, amnesty or regularization should be gender sensitive in design and application. Employers of domestic workers may be reluctant to provide sworn affidavits regarding employment, especially if they are non-compliant with the law in terms of minimum wages and are seeking to benefit from employing unauthorized workers. Support from civil society groups acting as an intermediary in the regularization of female migrants has often proved effective.

33. An influx of migrants or refugees increases the vulnerability of host communities in transit and destination countries with lower development. Women often bear the largest burden of the impact of increased population in their communities. Thus, migration projects and programmes should also devote specific attention to supporting the livelihoods of women in host communities. For example, an agreement signed by Italy and the International Organization for Migration in July 2017 to foster economic opportunities for Eritrean women refugees and potential Ethiopian women migrants in host communities is a good practice.

To trade unions and employers' associations

34. Established norms and practices in trade unions can implicitly limit the participation of women. Trade unions may be more familiar with male-centred, full-time work. They may not have established experience in dealing with the type of work that women migrants typically perform in the informal sector. They may also display gender bias in their leadership which limits women's representation and ability to influence strategy and objectives. Similar issues apply to employers' associations. Considering the heavy presence of women migrants in subsectors of the care economy, employers' associations should assist their members in protecting the rights of domestic workers and other migrants in vulnerable subsectors of the services industry. Good practices in this area include issuance of a code of conduct as a first step towards greater monitoring of practices.

E. To the Global Compact on Migration: what the world must hear

Africa wants to take its own migration narrative to the global stage

35. In the lead up to the global compact for migration, the African Union designated King Mohamed VI to champion migration for the continent, in light of the best practices of Morocco in the design and implementation of a rights-based, progressive migration strategy. The global compact for migration provides an opportunity for a new impetus in Africa's resolve to impose its own narrative in the global migration agenda.

36. The migration narrative could also be better framed within the continent by devoting more resources to funding carefully designed communications campaign that highlights the economic and trade dimensions of migration.

37. Good practices include amplifying the voices of members of the diaspora who provide testimonials of their migration journeys. The International Organization for Migration community conversations initiative, which engages elders and younger members of a community in conversations on the reality of migration, has also proved useful. In such initiatives, adaptation to specific contextual circumstances should be mandatory, as in some communities young people migrate due to pressure from elders. And finally, framing a new migration narrative in a less bleak and more positive light could contribute to a new era of promoting multilateral development aid in support of stories of resilience.

Strengthen the commitment to safe, orderly and regular international migration

38. The global compact for migration is an opportunity to stress the need for stronger protection of migrant workers, including by promoting labour rights and safe and secure working conditions for international workers. Measures should include ensuring benefits, social security and insurance to foreign workers. Particular attention should be given to women migrants and those in precarious situations.

Invest in innovative data collection

39. This report underscores the centrality of reaching a better understanding of decision-making at the individual and household levels for optimal policy targeting. Such an understanding relies on the use of household and individual datasets. Better and more frequent data collection should lead to improved information on migration patterns and migrants. Unpacking these realities will help reduce the primacy of preconceived ideas, most notably in populist accounts of migration.

40. The increase in mixed migration should also stimulate addressing the need to capture different nuances in the definition of migrants. Similarly, global and regional datasets should include multiple dimensions of migration that allow for consideration of economic and trade variables. However, data collection is a resource-intensive endeavour. The shared need for insights on African migration from all parties in Africa and beyond should justify joining forces in financing data collection efforts. Such initiatives can be leveraged if they are seen as constituting a first step in long-lasting dialogue and collaboration in designing and implementing win-win, managed migration policies in Africa and in extra-continental destination countries.

III. Conclusions

41. In summary, African countries can yield further benefits from migration by:

(a) Aligning migration, trade and investment policies with development objectives

(b) Leveraging remittances and harness diaspora for productive investment in sending countries

(c) Adopting more flexible labour policies to ease migrants' mobility

(d) Integrating migrants in labour markets

(e) Allocating resources to address structural determinants of Africa's socioeconomic development.

42. Recognition of the benefits of managed migration for socioeconomic development led to the inclusion of migration in the 2030 Agenda for Sustainable Development. The report thus strived to unearth global, mesolevel and microlevel data and built on existing knowledge to gain new insights on the role of intra-African migration in Africa's development journey. Gender-based analysis led to findings that challenge some of the current understanding on migration trends and to probe established myths about migration's socioeconomic impact. The report makes a plea for applying development resources to addressing structural factors for a longer-term impact on the structural transformation of Africa.